A GROUNDED THEORY ANALYSIS OF THE PRE-MEASUREMENT PHASE FOR THE ACCOUNTING RECOGNITION OF ASSETS

A thesis submitted for the degree of the Doctor of Philosophy by

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Abstract

This thesis induces a theory for the pre-measurement phase of the asset recognition process in the financial reporting domain centred upon the use of the induced artefact-based asset recognition criteria which are applicable to all assets. In common with standard-setting bodies, such as the International Accounting Standards Board (IASB), I adopt a social constructionist stance (Miller, 1994). It is one that is constructed from a process of consultation. I consult in order to, first, explore the accounting asset recognition process from a conceptual point of view and, second, so that my social construction in that regard can be legitimised, for the most part, on the basis of a consensus of those consulted.

However, unlike the standard setters' regulatory process, my analysis is structured using a grounded theory approach. The target audience comprises those experts who have been and/or who are currently involved in some way with the development of the IASB's conceptual framework (CF) project, including IASB board members. Different data collection methods were adopted combing both qualitative and quantitative data. In respect of the qualitative research, I carried out two sets of interviews. The first set was conducted with Canadian Accounting Standards Board members in May 2008 and International Accounting Standard Board members in June, 2008. The second set was conducted with more International Accounting Standard Board members, UK-Accounting Standard Baord members and other experts within the area being studied. These two sets of interviews were useful for determining the preliminary concepts and categories in the open coding and axial coding structure. In respect of the quantitative research, the concepts and categories raised from the first two sets of interviews were then used to construct an on line questionnaire. The questionnaires were emailed to national standard setters in Canada, the USA, Australia, Germany and the United Kingdom. This has been followed up with an interview with UK ASB director to help in finalising the theory saturation and to validate the reliability of the generated theory.

The generated theory demonstrates a three-circled set of criteria for the pre-measurement phase of an asset recognition process. The three-circled set of asset recognition criteria presented in this thesis breaks free from the narrow definitional and rule based perspective of accounting epistemology to offer an alternative view based on the recognition of artefacts.

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ABBREVIATIONS

CF	Conceptual Framework for Financial Reporting
IASB	International Accounting Standards Board
FASB	Financial Accounting Standards Board
AcSB	Canadian Accounting Standards Board
ASB	UK-Accounting Standards Board
AASB	Australian Accounting Standards Board
GT	Grounded Theory

Chapter One: The Research Aim and Supporting Rationale

1.0 Introduction

In common with standard - setting bodies, such as the International Accounting Standards Board (IASB), I adopt a social constructionist stance (Miller, 1994) in this thesis. It is one that is constructed from a process of consultation. I consult in order to, first, explore the accounting asset recognition process from a conceptual point of view and second, so that my social construction in that regard can legitimised, for the most part, on the basis of a consensus of those consulted. The target audience comprises of those expert persons who have been and / or who are currently involved in some way with the development of the IASB's conceptual framework (CF) project, including IASB board members. However, unlike the standard setters' regulatory process, my analysis is structured using a grounded theory approach. Whilst I acknowledge the inherently subjective nature of what I am trying to do, nevertheless, the outcomes are authoritative by virtue of the rigor of the supporting analysis.

The social constructionist stance of the accounting standard - setters gives rise to the definitions, principles and rules - based epistemology of the financial reporting domain. In my case however, I will be 'criteria - based' as extracted, in the form of codes, from the documented comments of those whom I have consulted. Whilst my focus is directed, in particular, towards the recognition of intangible assets, nevertheless, my 'grounded' asset recognition criteria, or what I prefer to call pre - measurement[1] criteria, are applicable to all assets.

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[1] The proposed asset recognition criteria collapse aspects of the existing asset definition and recognition process into what I refer to as a 'pre - measurement' phase of a two phase asset recognition process. The second phase concerns asset 'measurement'.

The objective of financial reporting is to provide users of financial statements with relevant information that is useful for credit and investment decision. According to the IASB CF (2001), the objective of the CF for financial reporting is to provide information about financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions (CF12-14). As a result, any physical or non-physical value that is likely to affect an entity's current financial position or its future performance should be reported in its annual accounts.

During the last three decades, the business environment has progressively moved into a knowledge-based, fast-changing and technology intensive economy in which investments in human resources, information technology, research and development, and advertising have become essential in order to maintain the firm's competitive position and ensure its future viability (Canibano et.al , 2000). As Goldfinger (1997; cited in Canibano, 2000) suggests, the source of economic value and wealth is no longer the production of material goods but the creation and manipulation of intangible assets. In this case, businesses need to make investments in intangibles on which the future success of the company is essential. These investments are not reflected in the balance sheet due to the incompetence of accounting criteria for the recognition of assets. As a consequence, financial statements are becoming less informative on the firm's current financial position and future prospects because they provide reliable but not relevant estimates of the value of companies. (Canibano et.al ,2000, Egginton, 1990). Egginton (1990) mentions that the accounting for intangibles becomes problematic, one can see that the most problematic part of asset recognition is to recognise something that is invisible such as intangibles.

The increasing importance of asset recognition has led to considerable debate within the accounting communities over the issue of accounting for un-recognisable assets for financial reporting issues. It has remained a problematic topic as evidenced by a considerable wide of literature (Munter and Ratcliffe, 1980; Schuetze, 1993; Egginton, 1990; Napier and Power, 1992; Tollington, 1998; Booth, 2003; Walker, 2003; Walker and Jones, 2003; Erhard, 2004; Johnson, 2004b; Bullen and Cook, 2005; Gore and Zimmerman, 2007; Miller and Bahnson, 2007). It was not until recently with the announcement of a new joint project between the IASB/ FASB to revisit the CF for financial reporting with a view to complete, update, refine and converge into a common improved CF (Bullen and Cook, 2005). There are three existing aspects for the asset recognition process: first, should an asset be identified to be recognised in the financial statements (meets the asset definition)? Second, should an asset meet the recognition criteria for the inclusion in the financial statements? And finally, the use of a particular valuation method to measure the asset in question. In 2006, the IASB/ FASB issued the first working definition of an asset with a view to overcome the shortfalls in the existing definition. While until 2010, the asset recognition phase has not been announced yet while the debate for the measurement bases is still under consideration by the IASB/ FASB project. This thesis addresses these aspects in two phases for the asset recognition process: the pre-measurement phase and the measurement phase. The former deals with the asset definition and the asset recognition criteria while the latter deals the valuation and choosing a particular measurement basis for measuring the asset. The absence of a consensus on the proper accounting for the pre-measurement phase for asset recognition has been the motive for this research.

This chapter addresses the problem of the asset based recognition process in respect of all type of assets. It is divided into four sections: the first discussed the role of conceptual frameworks in the asset recognition process, followed by the supporting rationale for the research objective. Then the research method is introduced and finally an outline of the thesis is provided to illustrate an overview of the thesis.

1.1 The role of conceptual frameworks (CFs) in the asset recognition process

CFs have typically been depicted by accounting regulators as a conceptually based tool that can be applied to improve the quality of accounting standards and the resulting financial reports (Pallot, 1997; McGregor, 1999; Newberry, 2003; Potter, 2005). However, for much of the past three decades this role has been widely criticized as a 'functional failure' for the recognition of many intangibles ((Egginton, 1990, Archer, 1992; Archer, 1993; Sundgaard, 2000; Gore, 1992; Mozes, 1992; Dean and Clarke, 2003; Loftus, 2003; Walker, 2003; Walker and Jones, 2003). The CFs have faced a number of specific criticisms: 'incompleteness', 'internal inconsistency' and 'unsubstantiated assertions' (Dopuch and Sunder, 1980; Peasnell, 1982; Pacter, 1983; Solomons, 1986; Agrawal, 1987; Gerboth, 1987; Schuetze, 1993, Schuetze, 2001; Chambers, 1995; Samuelson, 1996; Johnson, 2004a; Johnson, 2004b; Johnson, 2005; Bullen and Cook, 2005; Potter, 2005).

Criticism of the CFs has in many instances been directed towards the asset element and the asset recognition process as a whole, notably, the weaknesses of the definition of assets (Macve, 1981; Solomons, 1996; Schuetze, 1993; Egginton, 1996; Booth, 2003; Walker, 2003; Walker and Jones, 2003; Erhard, 2004; Johnson, 2004b; Bullen and Cook, 2005; Gore and Zimmerman, 2007; Miller and Bahnson, 2007), asset recognition (Napier and Power, 1992; Egginton, 1990; Tollington, 2001; Bullin and Cook, 2005, Gore and Zimmerman, 2007) and the asset measurement bases (Bullen and Cook, 2005; Bence and Fry, 2004; The Canadian Accounting Standards Board, 2005; Cooper, 2007; McGregor and Street, 2007; Barth, 2007; IASB, 2006). Probably because of such criticisms, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) began a joint project in July 2006 to revise their CFs with a view to convergence (Bullen and Cook, 2005) and to overcome the shortcomings of their existing CF (see Miller and Bahnson, 2007;

McGregor and Street, 2007; Benston et. al, 2007; Barth, 2007; Gore and Zimmerman, 2007). However, it is axiomatic that the process of converging one normative socially constructed structure with another normative structure remains inherently subjective. Likewise, my contribution on the specific issue of asset recognition could be viewed in a similar way, except that I have the added disadvantage of convincing an epistemic community[2] that may not necessarily be receptive to the recognition criteria induced in this thesis.

1.2 The supporting rationale for the research objective

Based on the above criticism directed towards the asset recognition process, the rationale for this research will be based on the shortfalls found in the asset definition and asset recognition criteria (which is combined together in the pre-measurement phase). These shortfalls are considered to be the obstacles to recognise the assets in the financial statements:

First argument is based on the critique of Schuetze (1993) towards asset definition:

> *"Assets may be acquired without cost, they may be intangible, and although not exchangeable they may be usable by the entity in producing or distributing other goods or services. Similarly, although the ability of an entity to obtain benefit from an asset and to control others' access to it generally rests on a foundation of legal rights, legal enforceability of a claim to the benefit is not a prerequisite for a benefit to qualify as an asset if the entity has the ability to obtain and control the benefit in other ways".* (p. 67)

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[2] "An epistemic community is a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy - relevant knowledge within that domain or issue area" (Haas, 1992, p.4; see also Potter, 2005).

Schuetze (1993) states that this definition is so complex, so abstract and so open-ended, so all-inclusive, it is like an "empty box" (Schuetze, 1993, p.67), everything can fit into that empty box, even expenditures and losses.

Second, the argument that assets are more than their ability to generate future economic benefits (the principal defining feature of an asset) and that they should not necessarily cease to be recognised as assets for accounting purposes just because this aspect was never present or ceases to be present (Schuetze,1993, 2001). Thus, an 'asset' may be recognised on the basis some way without ever producing future economic benefits itself and even though the balance sheet may therefore show a zero value according to the some adopted measurement basis.

Third, the argument that unless one can recognise an asset on a separable basis, one cannot be too sure of what one is subsequently measuring (Napier & Power, 1992). It follows to some extent that asset recognition on the basis of a measurement alone is an incomplete process, which I would argue, instead, comprises two stages: 'pre - measurement' and 'measurement'. As regards the latter issue of 'measurement', the selection of an appropriate measurement method has vexed the accounting regulators for decades with no single standardised measurement method emerging as the dominant one to adopt. The a - priori concern, however, is that of 'pre - measurement' which is what I address in this thesis. Generally, pre - measurement asset recognition is not a problem where the asset in question is tangible and visible in nature, which is why I concentrate to a large extent on intangible asset recognition in this thesis. Intangible assets, though, raise an obvious recognition issue that I address through the medium of documentary basis -artefacts: man made, a right enforceable surrogate for the missing physical and visually recognisable resource.

The final rationale in support of this research is the argument that asset recognition does not necessarily need to be transaction - based, that is, measurement - based, and that the pre - measurement use of right - based artefacts would enable the accounting regulators to embrace the recognition of many non - transactions - based internally generated intangible assets currently omitted from the balance sheet (see Davis 1992; Lev, 2000; AASB 2008).

With the above arguments in mind, ***the aim of this thesis is to induce a theory for the pre - measurement phase of the asset recognition process in the financial reporting domain, centred upon the use of the induced asset recognition criteria which are applicable to all assets.***

From this main objective, the research question arises as follows:

> ***What are the relevant features for a pre - measurement phase in an asset - based recognition process within the boundaries of the qualitative characteristics of financial information with an aim to achieve the objectives of the financial reporting and with the suitable documentary basis to represent a picture of financial reality?***

1.3 Research method introduced

The epistemological nature for the accounting for asset requires further investigation. Everitt and Fisher (1995, p,1) define epistemology as it is the combination of two Greek words *"episteme"* and *"logos"*. The former means knowledge while the latter means logic. According to Everitt and Fisher 1995, the notion of 'epistemology' means 'theory of knowledge'. We can think of the impact of the priori theory for the accounting for asset recognition. Everitt and Fisher 1995 distinguish between two schools of thoughts about a priori/ empirical; Coherentism and Quinean schools. The Coherentism accepts the priori beliefs when "*our justifaction for accepting either an empirical or an a priori belief lay in the way in which it cohered with other empirical or a priori beliefs"* (Everitt & Fisher, 1995, pp. 109-110). While the Quinean accepts the priori belief only when *"propositions are, ..., true* *in virtue of meaning or true by definition"* (Everitt & Fisher, 1995, p. 110). The priori belief can be accepted only if there is logic in it. For example 2+2=4 (Everitt & Fisher, 1995, p. 110). If we apply this on accounting as a discipline, the accounting as a discipline we cannot accept the CF for financial as an accepted priori belief. The CF has been criticised by shortfalls about the improper treatment for asset recognition. therefore, in this research, the Quinean school of thougth would be applied.

Everitt and Fisher 1995 mentioned about the Quinean rejection of the priori beliefs as follows

> *"Quine proposed that all our beliefs could be ranged on an entrenchment continuum. They range from the most highly entrenched to the most weakly entrenched, where degree of entrenchment measures the degree to which any particular belief is entwined with other beliefs. The crucial point here is that the beliefs differ only in degree and not in kind" (p. 189)*

From the above quotation we can think of the impact of the priori theory for the accounting for asset recognition. Should we imagine that the existing theory has a monopoly of concern on the recognition of assets? It is not the case, otherwise the standard setters would not think in revisiting and improving the CF for financial reporting. The existing literature notably criticise the CF for financial reporting directed towards the accounting for asset recognition. This would indicate our concern about the beliefs in the existing theory for the accounting recognition of assets.

I use a grounded theory (GT) approach, which, whilst it switches from iteratively from induction to deduction (Collis and Hussey, 2003), is ultimately aimed at inducing a new theoretical stance towards the asset recognition process derived from an analysis of such expertise and competence. I adopt the Strauss and Corbin (1990) approach to GT, as follows:

> "A grounded theory is one that is inductively derived from the study of the phenomenon it represents. That is, it is discovered, developed and provisionally verified through systematic data collection and analysis of data pertaining to that phenomenon. Therefore, data collection, analysis, and theory stand in reciprocal relationship with each other. One does not begin with a theory then prove it.

> Rather, one begins with an area of study and what is relevant to that area is allowed to emerge" (p.23).

Researchers who use GT as their research methodology do not test or verify any preconceived hypothesis. On the contrary, they develop a new theory based on the systematically collected evidence. This approach is somewhat different from most of the other studies in the field that are often based on hypothetico - deductive approach, instead.

My consultation process involved two sets of interviews. The first round was conducted with the Canadian Accounting Standards Board members in May 2008 during CAAA in Winnepig, Canada and also with IASB members in June, 2008, before their monthly meeting in London, UK. These interviews were useful for determining the preliminary concepts and categories, which I then used to construct the second set of interviews with IASB and ASB members, academics and experts knowledgeable in respect of the CF and asset recognition, in particular. The concepts and categories arising from the first two rounds of interviews then formed the basis for a third and final set of data collection using 'questionnaires'. The questionnaires were emailed to 32 regulators from Canadian Accounting Standards Board, German Accounting Standards Board, Australian Accounting Standards Board and UK Accounting Standards Board. This questionnaire was combined with an interview with UK ASB director at the time of conducting this study. Those regulators are involved in the process of the CF developments particularly in the recognition of the elements of the financial statements.

1.4 Structure of the thesis

The thesis is organised into eight connected chapters to achieve the aim of the research.

Chapter one provides an objective, a supporting rationale for that objective and a brief overview of the research method to be applied in fulfillment of that objective.

Chapter two presents a literature review with the intention of locating my research in an identified gap in that literature.

Chapter three locates GT in a “constructivist/ interpretivist/ qualitative” approach to research in general using Laughlin’s (1995) theory, method and choice matrix. Thereafter, the tripartite the Strauss and Corbin approach to GT is explained in the context of the objective.

Chapter four presents the open coding structure and how these open codes emerged from the data collection.

Chapter five presents the axial coding stages of GT as applied to the asset recognition context of this thesis.

Chapter six presents the final selective coding stage of GT and the emergent core category of the induced theory.

Chapter seven provides a discussion of the emergent theory in relation to the established literature – a process of comparison and reflection.

Chapter eight presents conclusions that have been drawn from the previous analysis, contribution of the research and directions for future researches.

Chapter Two: Literature Review

2.0 Introduction

The principles espoused in the CF are a social construction, as is the definition and recognition of an asset rule contained within it. These principles and definitions are supposed to guide the construction of accounting rules, but as one can see, for example, from the recent inclusion of fair value in the rules of accounting but not in the CF of accounting (IASB, 2001), that is not always the case. In this case a future revised CF is likely to follow the rule (notably, IAS39) rather than the other way around. It follows, to some extent, that an epistemologically based on such principles, definitions and rules is a somewhat subjective foundation on which to socially construct a faithful representation of financial reality if only because of the flexibility offered by this social structure. Consider, for example, Tollington (2006), where purchased goodwill switched from non - asset to asset status in the UK accounting rules without any reference to the definition of an asset which, de facto, was sufficiently flexible to accommodate such a switch according to political policy choice, rather than by reference to itself. What one can reasonably argue from this situation is that alternative social constructions could, in principle, be entertained on equally subjective grounds that would be better than what currently prevails. But at least in my case that social construction would be a grounded one using the grounded theory. What I attempt to do in this review is to point to the weaknesses of the existing construction as regards the recognition of assets so that one can accept the possibility of alternatives to it.

This chapter is divided into eight sections as follows:

Section 2.1: the social constructionist nature of the conceptual framework, Section 2.2: the nature of assets,

Section 2.3: the changing nature of asset recognition,

Section 2.4: asset measurement bases,

Section 2.5: entity - specific vs. market specific recognition

Section 2.6: the economic resource comprising 'rights'?

Section 2.7: the role of 'separability' in asset recognition,

Section 2.8: locating my research in the literature.

2.1 The social constructionist nature of the conceptual framework

Sprouse (1988. p121) argues for accounting to be a "legitimate" science, part of that legitimacy being derived from the rules, regulations and procedures of accounting as supposedly grounded on a conceptual framework (CF). Yet we know, for example, from the inclusion of fair values in many of the recent rules of accounting (IFRS7, IAS32 etc) that this development is detached from the existing CF measurement bases (IASB, 2001, para 100). In CF paragraph 100 fair value is mentioned under historic cost and not defined or identified as a separate measurement basis – this is left to the later IAS39 rule, instead. In a similar context, Dean and Clarke (2003) argue that the history of the CF is one that is biased towards searching for rational practices for preparing financial statements rather than a unique legal, social, economic and financial framework within which accounting is to function. In both cases the argument is that accounting practice is largely uninformed by the existence of a CF. Yet, the merits of a CF are still articulated in the literature. Despite the above example, consider the comments of Pyke (1999) who, nevertheless, argues that the main reasons for developing an agreed CF is that it provides a framework for setting accounting standards, a basis for resolving accounting disputes and some fundamental principles which do not have to be repeated in accounting standards. And he is not alone. The need for some kind of CF for financial accounting has been felt in the English - speaking countries for many decades (Elling, 1995; Sundgaard, 1997; Sundgaard, 2000; Archer, 1992; Archer, 1993; Gore, 1992; Mozes, 1992). In the USA this need resulted in the FASB conceptual framework issued from 1978 to 1985. Internationally, the IASC issued its framework from 1974 to 1989, followed by the IASB's CF in 2001. Yet, some writers (Archer, 1992; Mozes, 1992; Macrve, 1981; Sundgaard, 2000; Loftus, 2003; Newberry, 2003) have stated that it is unlikely that there will be an agreed CF. Page (2005), for example, likened the pursuit of a CF to the hunting of the snark – a mythical creature.

In July 2006, a joint project was agreed between the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) for an improved CF for financial reporting. The four phases of the revised and ongoing CF project are: phase A: Objectives and Qualitative characteristics, phase B: Elements and Recognition, phase C: Measurement and finally phase D: Reporting Entity. At the time of writing this thesis phase A was nearly complete. Many of the features presented in phases A and B are principle - based, including the use of definitions. Thus, the epistemology of financial reporting is a defined one, a social constructed one and one that is, therefore, subject to political policy making decisions that give rise to the numerous debates cited in the previous paragraph (see Barth, 2007).

As will be explored in section 2.2.3, the political policy decision making of the IASB gives priority to a balance sheet centred asset / liability view of accounting. This view is grounded on the Hicksian (1946, pp178-9) notion of changes in wealth, plus what is consumed in a period. It follows, to some extent, that the disclosure of income after deducting expenses comprehends, first, no distinction between income from operating or holding assets (compare Edwards and Bell, 1961, p93; Revsine, 1973, pp88-89), whether realised or not (see Bertoni and De Rosa, 2005; Cauwenberge and De Beelde, 2007; IASB, 2003; Newberry, 2003; Barker, 2004 on the notion of 'comprehensive income') and second, the weakening of concepts such as matching (see Lev and Zarowin 1999; IASB, 2001, para.95) and realisation too where the disclosure of valuations independently of a transaction effectively pre - empts the point of realisation as a recognition signal. These issues are addressed in the following sections, as well as missing issues such as those, for example, connected with the notion of separability. And there is a more fundamental starting point to this review that, in a sense, is taken for granted in the above political policy stance and that is the nature of an asset itself. One can make the argument, for example, that one should record comprehensive income, but if one cannot agree on what should be recognised as an asset then the subsequent issue of recording movement in asset values could easily be viewed as a meaningless one to undertake.

2.2 The nature of assets

2.2.1 A brief etymology

Williams (2003) states that the English word "asset" was adopted from the 16th century French word "asez", which, in turn, was derived from the Latin word meaning "to sufficiency" (in sufficient quantity). This word was used in the context of an insolvent debtor in settling his / her debts. By the end of the 16th century the meaning of an asset had been extended to all owned property of a person or entity which could be made available for his or their debts. Towards the end of the nineteenth century this view of assets which was understood in commerce, began to feature prominently in the accounting literature too. Alongside this view there appeared another view of assets: one representing deferred (unallocated) costs (see Williams, 2003). Outlays which were argued not to relate solely to the current period were reported in the balance sheet as assets, without regard for whether such outlays represented assets in the commonly understood sense of rights of ownership or objects owned that could be exchanged for cash. Subsequently, the notion that assets were unallocated costs was popularized, especially by those who argued that the focus of accounting should be on the profit and loss statement. For example, Paton and Littleton (1940) emphasized the importance of the matching of efforts and accomplishments as measured by costs and revenues (see Littleton, 1953; Engleman, 1954; Williams, 2003). At the same time, the emphasis was on the allocation of revenues and expenses to accounting periods to determine income. Solvency, or debt paying power, was considered of secondary importance.

Williams (2003) states that towards the second half of the 20th century there was a further change to a much broader view of assets as representing 'service potential' and more recently, 'future economic benefits'. This popular view of assets is reflected in the definitions promulgated by professional accounting bodies in the United States (Financial Accounting Standards Board (FASB), 1980) and the International Accounting Standards Board (IASB) (2001). Unsurprisingly, there is some similarity in the definition of an asset from these two bodies:

TABLE 2.1: DEFINITION OF AN ASSET

Components of CF	IASB (2001)	FASB (1978-1985)	Comments
An Asset is	A resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise (CF 49, 53-59).	Probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events (6.25-33).	Definition based. Similar re "control", "future economic benefits", "past transactions" and / or "events" and the 'probability' for future economic benefits.

2.2.2 Accounting assets as a defined reality

Definitions occupy a central conceptual role in the accounting domain. Hines (1988) argues, though, that this is because:

"If men define things as real, they are real in their consequences. We create a picture of an organization, or the 'economy', whatever you like, and on the basis of that picture (not some underlying real reality of which no - one is aware), people think and act. And by responding to that picture of reality, they make it so: it becomes real in its consequences. And, what is more, when people respond to that picture, and the consequences occur, they see it as proof of our having correctly conveyed reality. Clever isn't it. That is how society works" (Hines, 1988, p257, underlining added).

And if, as Hines implies, there is no "underlying real reality", then "a faithful representation of the real - world economic phenomena" (IASB 2005, 2008) is somewhat problematic. This is because representations of that defined "picture of reality" are always contestable (Popper, 1962), as is any correspondence to the abstract notion of accounting truth conveyed thereby (see Shapiro, 1997). Gerboth (1987), for example, argues that:

"…the existence of definitions matters hardly at all in deciding most issues of real - world consequence. Their contribution is to add brevity to discourse. The attempt to make them convey essential knowledge is a two - thousand - year - old source of obscurantism. Other respected disciplines are not even concerned about the precision of their definitions" (p.2).

The existing definitions of "assets" have many short - falls and have been criticized in the accounting literature for many years (Munter and Ratcliffe, 1980; Schuetze, 1993; Egginton, 1990; Tollington, 1998; Booth, 2003; Walker, 2003; Walker and Jones, 2003; Erhard, 2004; Johnson, 2004b; Bullen and Cook, 2005; Gore and Zimmerman, 2007; Miller and Bahnson, 2007). Despite the above argument, the IASB began to look at their definition again with a view to improvements. The following shortfalls in the existing definition of "assets" were identified (IASB, 2006):

a) Likelihood (probable): when there is a low probability or expectation of future economic benefits then it may be argued that the asset definition is not met.

(b) Future economic benefits: an unspecified output (benefits?) without reference to the source and nature of the related inputs. Edey (1971), for example, argues that the definition should contain within itself a method for calculation that could be used and followed in practices.

(c) Past transaction or event: there is emphasis on seeking to identify the past transaction or event that gave rise to an asset. It was argued that it would be more useful to focus on a present right or other privileged access to a present economic resource.

(d) Control: over resources or future economic benefits should not be confused with the control exercised for the purposes of consolidation accounting. So it was proposed to replace "control" with "rights or other privileged access" since this avoids the problem.

The above concerns led to revisions to the definition of an asset from…

"A resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise" (IASB, 2001, CF 49, 53-59),

to…the working definition in 2006;

"An *asset* is a present economic resource to which an entity has a present right or other privileged access" (IASB, 2006, p.4),

to…the working definition in 2007

An *asset* of an entity is a present economic resource to which the entity presently has an enforceable right or other access that others do not have (IASB, 2007, p.2).

Such changes encourage academic debate and it is often content focused (as shown below in table 2.2) on semantic nuances, whilst leaving the overall definition - led approach intact (Whittington, 2008).

TABLE 2.2: WHAT EXITS VS. WHAT IS PROPOSED IN 'ASSET' DEFINITION:

What the Board retained from the old definition in the new definition?	Resource
What the Board omitted from the old definition in constructing the new definition?	Expected Past events (past time frame) Future economic benefits (future time frame) Control
What the Board added to the new definition?	Present (time frame) Enforceable right or other access

2.2.3 The conceptual primacy of the asset - liability stance

There are currently two ways one can view assets in terms of their disclosure in the financial statements: the asset - liabilities view or revenue - expenses view (see Hicks, 1946; Bromwich et. al, 2005; Johnson, 2004b; Bullen and Cook, 2005; Gore and Zimmerman, 2007; Miller and Bahnson, 2007; Accounting expert (3), 2008).

The Asset - Liability view gives conceptual primacy to the balance sheet elements. Income is the net increase in the value of those elements: increases in assets and decreases in liabilities. This view of income is grounded in a theory prevalent in economics, namely, that an entity's income can be objectively determined from the change in its wealth plus what it consumed during a period (Hicks, pp. 178-179, 1946). Storey and Storey (1998), in supporting the dominance of the asset - liability view in the FASB Concepts Statement 6 (FASB, 1985) present the following logical sequence:

FIGURE 2.1: THE CONCEPTUAL PRIMACY ORDER (SOURCE: STOREY and STOREY, 1998, p. 87)

What is the asset?
What is the liability?
Did an asset or liability change, or did its value change?

Increase or decrease?
By how much?
Did the change result from:

An investment by owners?
A distribution to owners?
If not, the change must be comprehensive income
Was the source of comprehensive income what we call:

Revenue?
Expense?
Gain?
Loss?

To start at the bottom and work up, the list will not work

Proponents of the alternative Revenue - Expense view focus on what they view as the performance of the reporting entity as depicted by its reported income. The reporting of net income (or loss) for a period would be distorted unless it resulted from the proper matching of revenues and expenses in the period. Consequently, many items that are regarded as nonmonetary assets and liabilities are byproducts of the matching process. Receipts of the current period that are deemed to be revenues of future periods are deferred to those periods by means of deferred credits that are treated as liabilities. Similarly, expenditures of the current period that are deemed to be expenses of future periods are deferred to those periods as deferred charges (debits) that are treated as assets. Thus, assets and liabilities are the residuals of the matching process, the debits and credits that remain on the books after they have been closed (Johnson, 2004 b).

Regulatory criticism of the asset - liability view comprises:

The FASB CF (1978, para1.43) states that the information contained in the income statement is likely to be more useful to investors and creditors than the information in the balance sheet.

The IASB CF (2001, CF17) emphasizes that information about the performance of an enterprise, in particular its profitability, is required.

The ASB CF emphasizes on the information required by investors for financial performance rather than the information required by investors for financial position (ASB, 1999, para 1.13 and 1.15).

Johnson (2004b) showed that the FASB's adoption of the asset - liability view as the basis for its CF has been affirmed by others. Standard setters around the world that have developed conceptual frameworks — those in Australia, Canada, New Zealand, the United Kingdom and the IASB — all have based their CFs on the asset-liability view. Although some continue to believe that the asset - liability view emphasizes the balance sheet and deemphasizes the income statement, this may not be the case (see ASB, 1999 for one such denial). Bullen and Cook (2005) add that the contrasting viewpoints (asset - liability versus revenue - expenses, above) were set forth and discussed at length in the December 1976 FASB Discussion Memorandum, *Scope and Implications of the Conceptual Framework Project*. Paragraph 66 of that document noted that critics of the revenue - expense view contend that unless vital concepts — such as income, revenues, expenses, appropriate matching and distortion of periodic net income — are clearly defined, income under the revenue and expense view is almost completely subjective. In that document and other communications, critics of the asset and liability view who favored the revenue and expense view were challenged to define revenue, expense or income directly, without reference to assets or liabilities or recourse to highly subjective terminology like "proper matching" (Bromwich et al, 2005). Bromwich et. al (2005) argue that there is a conceptual tension between income expressed in terms of capital value and income expressed in terms of maintainable income – see section 2.2.4. Further, there are also conceptual grounds for believing that the most relevant income concept for users and their economic decisions will vary with their individual circumstances and conditions. It seems likely that the new conceptual framework project of the FASB and IASB will not be able to satisfy its critics unless the project "revisits the concepts" in a much more fundamental way. Indeed, revisiting the concepts will help the Board and their constituents to understand why accounting practice *has* to be made up of conventions:

"To be principles - based, standards have to be a collection of (socially) useful conventions, rooted in fundamental concepts" (Bromwich et al, 2005, p.p.4-5).

2.2.4 Linking the two previous sub - sections to capital maintenance

The definition of an asset (see section 2.2.2, above) does not specify what "future economic benefits" give rise to an increase or decrease in business value between two balance sheet dates (the dominant asset - liability in section 2.2.3 above). In particular, if the term "future economic benefits" is taken to mean future cash inflows, then the increase or decrease in value will exclude unrealized gains, for example, from holding assets. It follows, to some extent, that if the recent notion of comprehensive income is to include such unrealized gains, then there is some degree of disconnection between the definition of an asset and this notion. By extension, this will impact on the capital maintenance concept because the 'correct' identification of income between balance sheet dates is the means by which the capital is maintained or increased. In other words, income and capital are linked and how one recognizes and measures the former, affects the latter. It follows that the term 'correct' is simply political policy choice as to how one is going to view capital maintenance. Indeed, Revsine (1981) argues that an income measure is a derivative that unfolds only after deciding what capital to maintain and there has been much debate on the issue (Hicks, 1946; Gynther, 1970; Lorig, 1973; Macve, 1981; Revsine, 1981; Pratt, 1988; Bence and Frey, 2004; Bromwich et. al, 2005; Tweedie and Whittington, 1984). Thus, one can reverse the flow of the argument in this paragraph by asserting that consideration of the capital maintenance concept is a - priori to the manner in which the asset - liability view is to be applied in practice.

In addition to deciding what will be recognized as being part of comprehensive income, there is then the subsequent problem of deciding how that will be measured.

Tweedie and Whittington (1984, square brackets added) discuss the different styles of income equity as follows:

> "If income is to be measured in terms of the increases or decreases in the wealth of an enterprise, obviously some definition of that stock of wealth is required. Three basic measures of measures of wealth are evident from the literature:
>
> (1) financial capital - the equity stake in an enterprise in money terms […the extent to which the entity's net assets at the end of the period exceed its net assets at the beginning of the period excluding + / - distributions to owners during the accounting period];
>
> (2) real financial capital - the equity stake in an enterprise in real terms [comments as per point 1, below, adjusted for inflation…];
>
> (3) operating capacity capital - the ability of the enterprise to maintain its ability to provide goods and services […the extent to which the physical productive capacity of the entity at the end of the period exceeds its physical productive capacity at the start of the period excluding contributions from owners and + / - distributions to owners during the period…] (pp. 281-282; cited in Jacobs, 2003, p.3).

Revsine (1981) notes that point 1 is consistent with the historical cost income, that is, income exists only after providing for the reestablishment of the starting capital expressed in nominal historical dollars. And point 3 is consistent with the current cost income from continuing operations and the physical capital maintenance approach, that is, income exists only after providing for the reestablishment of the starting capital expressed in physical terms (Revsine, 1981, p.386).

There is little international convergence with regards to the capital maintenance concepts. The IASB CF (2001) allows an entity to choose, based on its assessment of the needs of its users, either physical capital maintenance or financial capital maintenance. The FASB, on the other hand, is more specific in adopting financial capital maintenance and rejecting physical capital maintenance. Thus, financial capital maintenance is based on historical cost accounting (Revsine, 1981) as supported by SEC (see Zeff, 2007 re political policy choices).

According to Lennard (2003), Baker and Zaman (2003) and Bence and Fry (2004), the IASB is not interested in the distribution of profit concepts. They argue, however, that if the IASB continues to ignore this issue, there will be a continuous debate about asset valuation instead. So, to repeat, any project on comprehensive income is important because it contains a hidden choice about which capital maintenance concept to adopt.

2.2.5 An asset versus an expense

The boundary between an asset definition and an expense definition is not clearly stated in the existing CFs. Samuelson (1996) notes that the main use of a definition of an asset in accounting practice is to classify costs incurred as either assets or expenses. He adds that a clear, unambiguous definition is needed to establish accounting policies involving the asset / expense distinction and to implement established policies in the various circumstances in which costs are incurred. In Scheutze's view (1993), the FASB's definition does not clearly enough distinguish assets from expenses and is therefore used to justify the recognition of assets which have little, if any, relevance to an assessment of the financial position of an enterprise. A clearer distinction between assets and expenses would be possible if assets were defined as **property rights** (Fisher, 1906, Samuelson, 1996). A theoretical foundation for defining assets as property rights can be found in Irving Fisher's The Nature of Capital and Income (1906). In his book Fisher equated assets with property, or property rights. Property rights lie at the heart of economic activity. The modern theory of property rights focuses on how, through complex contractual arrangements, production and trade alter the rights of individuals to the uses of goods and services provided by nature. One economist (Alchian, 1967) has gone so far to say that:

> "In essence, economics is the study of property rights over scarce resources....The allocation of scarce resources in a society is the assignment of rights to uses of resources.. ..the question of economics, or of how prices should be determined, is the question of how property rights should be defined and exchanged, and on what terms" (p.2, cited in Samuelson, 1996, p.148).

In its discussion memorandum for the conceptual framework, the FASB (1976) considered a definition of assets based on property rights but later rejected it in favour of a definition based on probable future economic benefits. In support of this definition - led stance, Lev (2000), for example, argues that the distinction between assets and expenses is clear in that an expense is not expected to provide any benefits (where benefits are taken to mean cash flows) beyond the accounting period, while an asset does. However, on this basis, expenses like advertising and software could qualify as assets because the emphasis here is upon 'asset' measurement rather than asset recognition of the substantive nature of an asset, addressed next.

2.2.6 Summarizing section 2.2

Over the decades there has been a broadening of the role of assets from their legalistic, property - centred role in the settlement of debts to one that embraces an economic decision making role. Accompanying this shift in emphasis was the standard - setters' decision to "define" their intended construction of financial reality in economic terms. However, determining economic wealth in terms of increases and decreases in capital and related income is problematic, because it depends on other political policy decisions. Notable in that regard was / is the primacy given to the definition of asset and, by extension, to the balance sheet as a representation of changes in the value of assets over time. However, reflecting changes in value is dependent on further political policy decisions concerning the maintenance of capital and the nature of the income, comprehensive or otherwise, that is to be recorded. Finally, on the debit side of the balance sheet, the “defined” construction includes an asset definition that is not particularly good at distinguishing an asset from an expense with the impact that this obviously has on the recording of income and capital.

2.3 The changing nature of asset recognition

Sterling (1984) defined recognition as “the display of words and numerals on financial statements” (p.3) and recognition criteria are

> “…recognition tests...for the purpose of deciding which words and numerals should be displayed and which should not be displayed. Because financial statements are dated, the tests also serve the purpose of deciding when the words and numerals are displayed. Some words and numerals will satisfy the tests at one date and not satisfy them at another date thereby deciding the question of when certain words and numerals, such as revenues and expenses, will be displayed” (p.3).

Similarly, IASB CF (2001, para. 82) defines recognition as the process of depicting an item in words and by monetary amount and the inclusion of that amount in the balance sheet or income statement totals. That process is initiated by compliance with recognition criteria, the first criterion being compliance with the definition of an asset (IASB, 2001, para. 83). One may view this situation in two ways: the constituent attributes of the definition (not the definition itself) are part of a recognition criteria - led approach (a single hurdle approach) or, alternatively, compliance with the definition of an asset is a - priori to further asset recognition requirements (the current two hurdle approach). To repeat, the latter approach prevails at the moment. Since compliance with the definition of an asset is the first step (IASB, 2001, para. 85-88) it is reasonable to argue that so too are its constituent attributes part of the overall recognition process. De facto, an asset is not recognized without them and, as such, it is reasonable to argue that some explanation of the fairly abstract terms like ‘economic resource’ or ‘economic benefit’ are required, if only to remove ambiguity – what is ‘economic’, what is ‘benefit’ and so on (see section 2.2. previously). One can refer to this requirement in terms such as ‘recognition criteria’ or simply, ‘an explanation’. The point here is that it probably does not matter whether one has a two - stage ‘definition - and - recognition’ process (IASB, 2001), a one - stage ‘definition - with - explanation’ process (under consideration by the IASB in 2009) or a one - stage ‘recognition - criteria - only’ process (in this thesis). The point is that whatever conceptual process is adopted, it could be argued, it should have a practical outcome so that one can *in practice* accurately delineate an asset element, particularly the intangible ones, from any other element. So, for example, if rights are an essential feature of the definition and / or recognition process, then what are the rights? List them, identify their properties (contractual, statutory registration, court order, prescriptive rights, custom and practice, free goods etc), identify dimensions where they exist (how long is a long - lived right? Are transactions merely a subset of general right of transference? etc), possibly rank where hierarchical relationships exist between them (is a right to control a - priori to a right to future use? etc), determine what rights are essential (a right to capital and how is that to be maintained? etc) and what rights are desirable (the right to use as security? etc) for asset recognition to occur and so on. In other words, give the practitioner something they can actually use even if it is just a well - explained checklist. Again, recognising a potentially unrecognisable intangible asset is clearly problematic. Nevertheless, without some form of asset recognition the possibility exists that there may be little or nothing to subsequently value. Yet, as Whittington (2008) argues, the current CF confuses *measurement* with *recognition,* despite the fact that the latter is obviously a - priori to the former. What seems likely to exist for asset recognition purposes in the revised CF in 2010 will be the following (Table 2.3):

TABLE 2.3: RECOGNITION CRITERIA: EXISTING VS. PROPOSED

What the IASB retained from the old asset recognition criteria.	Compliance with the definition of an asset
What the IASB may omit* from the old asset recognition 'criteria' in the new asset recognition (or rather, definition – led) 'process'.	Probable…future economic benefit Measured with reliability.
What the IASB added to the CF in respect of the new asset recognition 'process'.	"Measured reliably" changed to "faithful representation".
What, subjectively, may be said to be missing in respect of the new asset recognition 'process'.	Measurability (recognition of the parameters for measurement, not the measurement methods themselves). Separability

* Since the process is not yet complete, this situation may change.

To summarize somewhat speculatively (if only because the revised IASB CF is still under review at the time of writing), what we are seeing in such developments is a move towards a position where one asks: does the item comply with the definition of an asset? And, if so, then measure it. In determining compliance with the definition of an asset, it is supported by an explanation or 'qualitative characteristics', but there is no emphasis upon legalistic, transactions - based recognition or indeed, the reliability of transactions - based measurement. Rather, what we see is a firm affirmation of the economic decision - useful stance and a laying down of an asset recognition basis, unrestricted by the limitations of transactions - based cost records, that paves the way towards the use of fair values at the initial recognition stage.

2.4 Asset measurement

Most writers (Bullen and Cook, 2005; Bency and Fry, 2004; The Canadian Accounting Standards Board, 2006; Cooper, 2007(a,b); McGregor and Street, 2007; Barth, 2007; World Standard Setters Meeting, 2006(1-b), Whittington, 2008; Bradbury, 2008; Ronen, 2008; Turley, 2008) agree that the measurement process is the most underdeveloped area in the existing IASB and FASB CF's. The measurement process is defined by the IASB (2001) as: "the determination of the monetary amounts at which the elements of financial statements are to be recognized and carried in the balance sheet and income statement". Similarly, the ASB CF (1999) defines the measurement process as "a process of deciding on the measurement basis to be used and determining the monetary amount that is appropriate under that basis". The FASB's CF, on the other hand, separates measurement into (a) selection of the monetary unit and (b) choice of attributes. The next two sub - sections are framed by this attempt at decomposition.

2.4.1 The selection of monetary unit

As to the monetary unit selection, the FASB's CF adopts nominal units of money (FASB, 1984, para 5.71, 5.72) over alternative units of constant general purchasing power approach (see FASB, 1979, p.12). In the IASB CF and the ASB CF, however, no preference is exercised (IASB CF, 100; ASB 6.43). The IASB and ASB just mention the use of a current unit of measure in as a part of financial capital maintenance (Bence and Fry, 2004, pp.6-7).

The measurement issue may not be as controversial today as it was when the CFs were first developed, because most major economies are currently experiencing little or no inflation (Bullen and Cook, 2005). Nevertheless, Bence and Fry (2004) argue that the IASB CF should consider accounting for price level changes in detail given that inflation is still a major problem in some of its constituent countries. It is therefore somewhat strange that there is no mention of the Current Purchasing Power (CPP) in the IASB CF, yet it forms the basis of the only reporting standard on inflation accounting (IAS29 on *Financial Reporting in Hyperinflationary Economies*). CPP accounting seems to be the most likely alternative to the current 'mixed measurement' system in the case of hyperinflationary economies.

2.4.2 The Choice of Attributes

The IASB CF contains a list of measurement attributes: historical costs, current costs, gross or net realizable (settlement) value, current market value and present value of expected future cash flows. One of the main issues concerning these attributes is their labels (IASB, 2006-b), because there is an interchangeable use between some of them, for example net realizable value and exist value. Secondly, there is an oversimplification in that an apparently single measurement method can be part of a family or group method (IASB, 2006-b), for example, the historical cost family includes original transaction price, original entry value, accumulated cost, allocated cost, amortized cost, combinations of accumulated, allocated and amortized costs and recoverable costs. Finally, there is the issue of how to use these attributes in the measurement process – see Table 2.4.

Table 2.4: MEASUREMENT ATTRIBUTES MENTIONED IN THE IASB CONCEPTUAL FRAMEWORK (SOURCE: Bence and Fry, 2004 adapted by the author)

The measurement attribute	**IASB Framework**
Fair value	Not mentioned in Framework, but defined in the IAS 39 and SFAS 157
Historical Cost	Defined (CF 100a)
Replacement Cost	Defined and referred as ‘current cost’ (CF 100b)
Net Realizable Value	Defined (100c)
Present Value	Defined (100d)
Value to the Business or Deprival Value	Not mentioned

It is evident (Bence and Fry, 2004) that the UK ASB favours ‘value to the business’ (VTB), or ‘deprival value’ for assets , whereas, to repeat, the IASB list the options but fails to recommend a preferred measurement technique. That said and unlike the ASB CF, there is no formal recognition of a ‘mixed measurement’ system in the IASB CF (compare with ASB 1999, appendix III, paragraph 55), which may suggest that it was written in an era when there was a search for ‘one’ system of income measurement.

One of the arguments in favour of a mixed measurement approach is that it is ‘flexible in that the mix of historical cost and current value can be changed, as accounting thought develops and markets evolve’. Salvary and College (2003) conclude that the numbers in financial statements are not relevant for being based on five different attributed measurement methods (see Table 2.4), but, according to Cooper (2007b), mixed measurement is not necessary a problem if there is more of a focus on ‘comprehensive income’ (section 2.2.4 previously). An implication is that the use of current value is likely to become more prevalent with the growth and development of more sophisticated markets (Bence and Fry, 2004, p.10). Bence and Fry (2004), Barth

(2007) and Cooper (2007-b): a) argue that there is a drive from IASB, FASB, ASB and AcSB (Canadian Accounting Standard Board) towards the fair value. Increasingly, despite the fact that many existing (and proposed) IFRSs and FASB statements are based on the concept of 'fair value', it is, nevertheless, not referred to in the IASB CF (2001). Therefore, such an omission suggests that the international CF's measurement provisions are limited and alarmingly out - of - date.

(b) IASB CF does not provide guidance on how to choose between these attributes, that is, they lack fully developed concepts (Bullen and Cook, 2005).

(c) IASB CF does not distinguish between measurement techniques used for initial measurement and then subsequent measurement, although the latter event includes revaluations, impairment and depreciation, and gives rise to issues about the classification of gains or losses in statements of income and changes in equity. (Bullen and Cook, 2005).

(d) A consequent issue to the initial recognition process is the subsequent recognition and derecognition criteria as the measurement attributes may differ (Bullen and Cook, 2005).

(e) The "Unit of Account" is one unresolved concept that recurs in various ways in IASB's discussions about measurement issues. Specifically, whether items should be grouped at some level of aggregation or disaggregated to their lowest level of recognition. Different units of account result in different measures of impairment if the measurement attribute is historical cost. That is because if the unit is a large group of assets, the impairment of one asset may be countered by appreciation of another asset. Different units of account also result in different measures of fair value if the price for a single item is higher or lower than the per - unit price for a group of similar items. Or perhaps what appears to be a single item should be subdivided for accounting purposes. Several standard projects turn at least in part on the unit of account, and, according to Bullen and Cook (2005), neither CF provides useful guidance.

To summarize, the issue of 'measurement' cannot be completely divorced from the subject of this thesis, namely, the 'pre - measurement' phase in the accounting recognition of assets. My engagement with the issue of measurement here is to highlight some of the cross - over points between pre - measurement and measurement. For example, the unit - of - account question involves both the recognition of what will constitute a unit, as well as how to measure it. In general terms though, it is the Bullen and Cook (2005) assertion as to under - developed concepts (point b) that is pertinent here and to work the contribution of this thesis is directed.

2.5 Entity - specific vs. market specific recognition

Market - specific recognition means an entity looks to the market prices of assets and liabilities, which reflect market risk preferences and market expectations with respect to the amounts, timing and uncertainty of future cash flows. Entity - specific recognition will differ from market value because of different expectations as to amounts or timing of future cash flows, different risk assessments or preferences (see Canadian Accounting Standards Board, 2005).

The content of this section is still located in the measurement attributes of the previous section 2.4, namely whether any measurement should be market based or not. And to a large extent the question is a rhetorical one because I have already indicated that the dominant conceptual stance is one based on economic decision making, which tends to favour market based values. However, as the sub - title implies, the issue is also a recognition issue because: The referral to a market based value for an asset is typically triggered by an entity - specific event, such as a decision to purchase the asset. There is no market for many intangible assets and therefore both recognition and measurement would have to be entity - specific. For instance, with internally created intangible assets, asset recognition depends on where one positions oneself. If one positions oneself in the entity - specific 'camp', then, on a transactions basis, internally created intangible 'assets' have previously been expensed against income rather than being currently capitalised. And there is a wide degree of accounting discretion as to the asset or expense location of the related transactions - based debit. In theory, (but almost certainly not in practice), it would be possible to trawl back through previous income statements and extract the expensed transactions that one now wishes to capitalise instead. Alternatively, if one positions oneself in the market - specific 'camp', then the transactions relate to those assets, not expenses, that the market chooses to recognise and place a value upon. Linsmeier et al (1998, p313), Hirschey and Wygandt (1985, p327), Guilding and Pike (1990, p48), Aboody and Lev (1998, pp162-163), Barth et al (1998, pp62-63) Amir and Lev (1996, p5) highlight the situation where expenses could be regarded as intangible assets, that is, respectively in respect of RandD, advertising, marketing expenditure, software, brands and in general. All that said, there are many intangible assets, particularly those from the intellectual capital domain, that may have no transactions basis at all on which to ground asset recognition, and the related event may simply be eureka moment disconnected from any business entity. For example, the private patent creator and subsequent major shareholder of a company producing his patented cyclonic vacuum cleaners effectively transfers control and usage of an intangible asset that is not transactions - based and, yet, it is the mainstay of the company for the life of the patent. If one had to make a choice between the two camps in this regard then, at the point where the control and future use of the intangible asset was transferred to the business, it became an entity - specific event with an uncertain value. As regards the uncertain value assertion, there is no entity - specific transactions - based measurement or market - specific valuations - based measurement, especially with the absence of organised liquid markets for intangible assets (Maines et.al, 2003). And this thesis stops short of addressing that thorny and longstanding accounting problem.

2.6 Does the economic resource in respect of an asset comprise 'rights'?

In the existing definition of an asset (IASB / FASB) the word 'control' dominates the definition (as shown in Table 2.1). In the proposed definition of an asset, the word control is replaced by 'enforceable rights or other access that others do not have':

An *asset* of an entity is a present economic resource to which the entity presently has an enforceable right or other access that others do not have (IASB, 2007, p.2).

Fisher (1906), in his famous book *The Nature of Capital and Income*, equates assets with property rights, as property rights lie at the heart of economic activity. There is the mutual relationship between the concept of wealth and the concept of property. Wealth is used in a collective sense to include both stocks of wealth at an instant in time and flows of wealth during a period of time (Samuelson, 1996). Property is the right to use wealth. A right, according to Fisher (1906), "is a term of jurisprudence, and brings economics into contact with the whole subject of legal and custom - sanctioned relations" (p.20; cited in Samuelson, 1996). He defines the right of a person to the uses of an article (or instrument) of wealth as "his liberty, under the sanction of law and society, to enjoy the services of that article." Because services owned are always future services and since all future events are uncertain, a property right can also be defined as "the right to the chance of obtaining some or all of the future services of one or more articles of wealth" (Fisher, 1906, p.22; cited in Samuelson, 1996).

Samuelson (1996, pp147-150) states that:

"…a clearer distinction between assets and expenses would be possible if assets were defined as property - rights. All resources used by an enterprise have bundles of rights attached to them. These rights include the rights to use a resource, to change its form or substance, and to sell or rent it to others...Assets are equated with property and therefore represent rights to capital and income (the services of wealth). Property is the "flip-side" of wealth and is distinguishable from property value which is its quantity times its price. Assets are abstract rights that can be exchanged. Asset values are monetary representations of property rights."

We see in his concluding comment the link between what I would regard as the central feature of any pre - measurement phase, namely, "property rights", linked to "asset values" as undertaken in the subsequence measurement phase of the overall asset recognition process.

Pallot (1990) explores another link involving property rights, namely the link to resources:

"…assets have both a resource dimension (where a resource is that which produces benefits) and a property dimension (where property is taken to be a set of legally sanctioned rights over things and between persons with respect to things). This analysis demonstrates (and draws upon) the fact that accounting has its foundation in both economics and law." (p.81, brackets added)

The link between right and resource is contained in the above asset definition too. However, as Weetman (1989) rightly points out, the need to define a resource in a definition simply replaces the need to define an asset (see Samuelson, 1996 too). Therefore, if Weetman is correct, there is potentially an added issue of the need to define rights replacing the need to define a resource replacing the need to define an asset where the asset is intangible in nature. This is because, whilst one has little difficulty comprehending a tangible resource (and property), it is a somewhat problematic exercise when dealing with the notion of an intangible resource and whether this is actually a contradiction in terms? The right and resource are conflated as the means, often the legal means, of accessing future economic benefits. One can then try to be more precise about the sort of rights that might constitute the intangible resource. Honoré (1961), for example, proposes a list of 11 attributes that make up private property, including: right to control; right to use; right to manage; the rights to income; the rights to capital; the right to security; the right to transmissibility; the absence of a term; the prohibition to harmful use; liability to execution, the right to a residuary character.

Booth (2003) appears to support the above argument about a conflation when he asks:

"Are assets 'rights', from which an entity can expect to derive future economic benefits, or are assets the future economic benefits per se?"(p311)

He avoids the specific issue of what constitutes an intangible resource but, nevertheless, it is the right that would appear as an asset on the balance sheet. De facto there must be a resource element, otherwise it would not be an asset and the only candidate in that regard is the right:

"...A right is recognized as an asset if it is reported on, or incorporated in amounts reported on, the face of the financial statements of an entity."(p311)

Support for this 'assets are rights' argument, particularly in respect of intangible assets, is offered by Maines et. al (2003) who distinguish between physical and financial assets and intangibles as follows:

*"Many intangibles like customer loyalty are not separate and saleable assets--their value can be measured only as part of the residual value of the firm. And the well - defined property rights of physical and financial assets that effectively define control and exclude others from enjoying the benefits of these assets often do not extend to intangibles." (*p.181)

In summarizing this section one can see that the 'assets are rights' argument is of pivotal importance when dealing with intangible assets because of the absence of a recognisable 'resource' other than the 'right' itself. Likewise with respect to the economic benefits that flow from that resource because it can be argued that exercise of that substitute right is often about preventing others from competing rather than obtaining economic benefits for oneself from the right. In other words, the economic benefit is indirect at best. This in turn raises questions about the causal linkage between the recognition and disclosure of a 'right' on the balance sheet when the measurement of the economic benefit from that right is so uncertain. But that is a measurement issue that does not prevent the recognition of the right as an asset even if the recoded value is a nominal figure.

2.7 The role of 'separability' in asset - based recognition

According to IAS38 a separable asset is the one which is:

"...capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability"(IASB, 2004).

The important point here is that separability is recognition - based, not measurement based. The separable recognition of an asset occurs before asset measurement, otherwise one cannot be too sure of what one is measuring and transferring should be necessary. As Archer (ASB, 1995) rightly points out in this latter regard:

"…the concept of separability involved is the 'ontological' criterion of separate transferability, not the criterion of separate identifiability of the estimated attributable future cash flows. The latter strictly concerns the different issue of 'measurability'".

A related problematic issue, though, is establishing the separable recognition and transference of something that is intangible in nature. It initially appears that the only basis for intangible asset recognition to occur is actually on the basis of a measurement, typically a market - based valuation – a market - specific approach that perversely gives priority to a measurement as the simultaneous basis for asset recognition. Thus, Napier and Power (1992) comment with respect to such measurements that:

*"Measurement separability goes further by effectively collapsing all three stages of identification, recognition and measurement into one. In other words, if we can measure the resource in an acceptable manner, then it is difficult to resist the identification of the resource as an asset and its consequent recognition in financial statements…such methods are claimed to be acceptable because separate identification is possible, but we argue that such methods determine, rather than depend upon, separability. Because of this apparent circularity, the acceptability of such methods cannot be determined simply by appeals to the idea of separability, because this idea is not independent of measurement."(*pp.88-90)

However, this "measurement separability" or 'measurement only' view is perhaps unbalanced: asset measurement should not "determine" the separable recognition of assets because, to repeat, the latter logically is a part from the former (see Whittington, 2008). Consequently, there is no "apparent circularity" because, as Archer implies above, separability has a 'transferability', as well as a 'measurability' aspect to it. It can be argued that a physical, separable recognition can occur anyway on the basis of a documentary representation of the intangible asset, such as patent letters or trademark registration documents. Also one may argue that Archer's 'transferability' is one of many functions of a separable asset that should form part of the recognition process for intangible and tangible assets alike.

El-Tawy and Tollington (2008-a, p.727) define separability as:

"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 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."

A problem though is what constitutes "the whole of the assets" where, for example, wealth creating human 'assets' are deliberately kept off the balance sheet. Another problem is the determination of "individual assets" (is it bricks and mortar or is a building?), particularly where some assets are often bundled together into a single unit, as with financial instruments. Thus, as Egginton (1990) rightly points out, the ability to identify a resource as a bundle of legal rights does not exhaust the notion of separability.

Some notable academics think that separability should be part of the definition, for example Baxter (cited in ASB, 1995, p62). Similarly, Chambers (1966, p103) argues that "an asset is defined as any severable means in the possession of an entity." Separability does appear in a German definition of an asset. More importantly, it is a 'balanced' definition insofar, as it has both of Archer's transferability and measurability aspects of separability in it. Thus, Schmalenbach - Gesellschaft für Betriebswirtschaft e.V. (SG) (2005) define an asset (Vermögensgegenstand) as follows:

"It must represent (1) an economic value, (2) that value can be separated from the entity (i.e., transferred or sold independently of other assets) and (3) it can be valued individually. Intangibles that were acquired (separately or as part of a business combination) and self-generated (internally generated) intangibles considered to be sold (current items) must be recognized as an asset if they comply with the above definition" (p70-71).

Upton (2001, pp.70-71) on the other hand, in offering a "list of potential intangible assets", states that "separability and contractual / legal rights are not essential characteristics of an asset, but they are evidence of one characteristic that is essential - control". That said, neither separability nor control appear in the latest definition of an asset, as presented in section 2.2 previously.

In summarizing this section one can see that separability has a recognition dimension and a measurement dimension, but note that recognition is a - priori to measurement, for the reason given previously. That priority is reversed with Napier and Power's (1992) notion of measurement separability and this reversal should not be surprising, given the overall economic orientation to accounting and the existing definition of asset (IASB, 2001) that emphasizes the measurable "future economic benefits" as a basis for asset recognition. However, one example of the perversity of the 'measurement - substituting - for - recognition' approach is evident in purchased goodwill. From a recognition viewpoint purchased goodwill is inseparable from the other assets of a business assuming it is an asset at all (prior to 1997 in the UK it was expensed instead). From a measurement viewpoint, however, it is made separable according to an accounting rule that simplistically says: take the amount paid to acquire a business away from the fair value of the separable assets so acquired and the arithmetic difference (the measurement) is recognized as an asset. The separable measurement replaces any consideration of the 'rights' present in goodwill, assuming it has any?

2.8 Locating my research in the literature

After reviewing the literature, it has been clear now that there are weakness and criticism towards the existing asset definition and asset recognition criteria in the existing CFs. In exploring the case for asset recognition criteria I must unavoidably span all the section headings in this review chapter. It is therefore not possible to identify one particular niche or section heading, above, in which to place my objective.

Chapter Three: Research Methodology

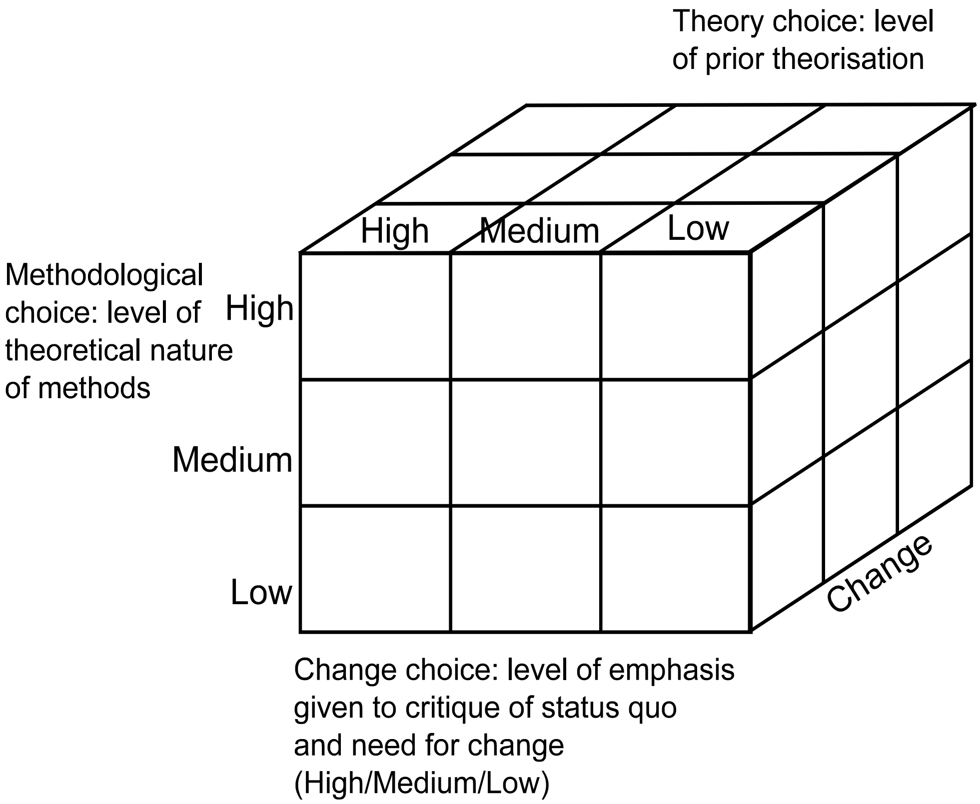
3.0 Introduction

In chapter two, the literature review identified the issues around the asset based recognition process. In this chapter, the main concern is to examine the research method to be adopted in this thesis. There are four sections that address the following: section 3.1: the researcher's philosophical perspectives; section 3.2: grounded theory, section 3.3: grounded theory research structure and 3.4: summary.

3.1 The Philosophical Perspectives

According to Laughlin (1995), social science comprises of a five part schema: ontology (a position on being), human nature (role of the researcher), nature of society (perceptions of society), epistemology (knowledge) and finally methodology (ways to investigate the world). Laughlin (1995) expresses this schema in the form of choices on three dimensions (see Figure 3.1): ***theory*** (p.66), ***methodology*** (p.67) and ***change*** (p.67). The "theory" dimension refers to the level of usage of prior theorizing before undertaking any investigation. The "methodology" dimension refers to the level of the researcher attachment to the research site and the related methods of investigation. The "change" dimension addresses the status quo and the need for change in the phenomena being investigated. Figure 3.1 shows Laughlin's (1995) theory / methodology / change matrix:

FIGURE 3.1: LAUGHLIN'S THEORY, METHODOLOGY AND CHANGE MATRIX



Next these three dimensions will be examined:

1- "Theory" choice:

This dimension involves deciding on a view about prior level of theorizing, specifically, the ontological and epistemological assumptions. This choice will range from high to low level, as shown in figure 3.1. Laughlin (1995) states that:

"High levels of prior theorizing are indicative of an assumed material world (which exists distinct from the observers' projections and bias) which, despite empirical variety, has high levels of generality and order and has been well researched through previous studies. The current investigation becomes little more than an additional incremental study in the great general theoretical design which has been unfolding over maybe centuries of time……..Low levels of prior theorizing, at the far extreme, assume that the world is not material – it is a projection of our minds. …………….In this position the empirical detail is not mere confirmable or refutable "data" for some prior theory but becomes important in its own right" (p.66-67).

In between high to low level on the continuum of prior theorizing choice, the 'medium' level according to Laughlin (1995, p.81):

"….recognizes that generalizations about reality are possible, even though not guaranteed to exist, yet maintains that these will always be "skeletal" requiring empirical detail to make them meaningful……. However, to the "middle range" thinkers the empirical detail is of vital importance. It complements and completes the "skeletal" theory".

2- Methodology choice:

This dimension refers to the method of conducting an investigation, for example, a detached theoretical approach to the observation process or an approach that is more reliant on the implicit perceptual powers of an individual observer. The 'methodology' choice will range from high to low level on a continuum. In respect of this dimension, Laughlin (1995) states that:

"…………[with] a high theoretical definition for the resulting methods then there is an implicit assumption that the observer is largely irrelevant to the process and his or her subjectivity or bias, which at the far extreme are assumed not to exist, plays no part in the process. At the "low" end of this continuum, on the other hand, the individual observer is permitted and encouraged to be free to be involved in the observation process completely uncluttered by theoretical rules and regulations. This does not mean that no rules and / or constraints are exerted over the observer in his or her observation process. However, these are defined in such a way that they attempt to avoid theoretical and rational closure (i.e. the characteristics of those on the high end of the continuum in this methodology dimension) but rather preserve the subjectivity and variability of the perceptual differences of the observer." (p.67; square brackets added).

With regards to middle range thinking to methodology choice, Laughlin (1995, p.84) states that:

"In the 'medium' position, however, the perceptual rules are made public and clear, but their nature is 'skeletal', encouraging and allowing flexibility and diversity in the discovery process".

Laughlin (1995) suggests that a "middle range" methodological positioning offers a combination of the strengths of 'high' and 'low' approaches, at the same time, this would avoid their absolute weakness.

3- "Change" choice:

This dimension refers to the observer's attitudes to maintain the current situation that is being investigated, as well as the necessity for actually doing something about this situation. Laughlin (1995, p.68) states that:

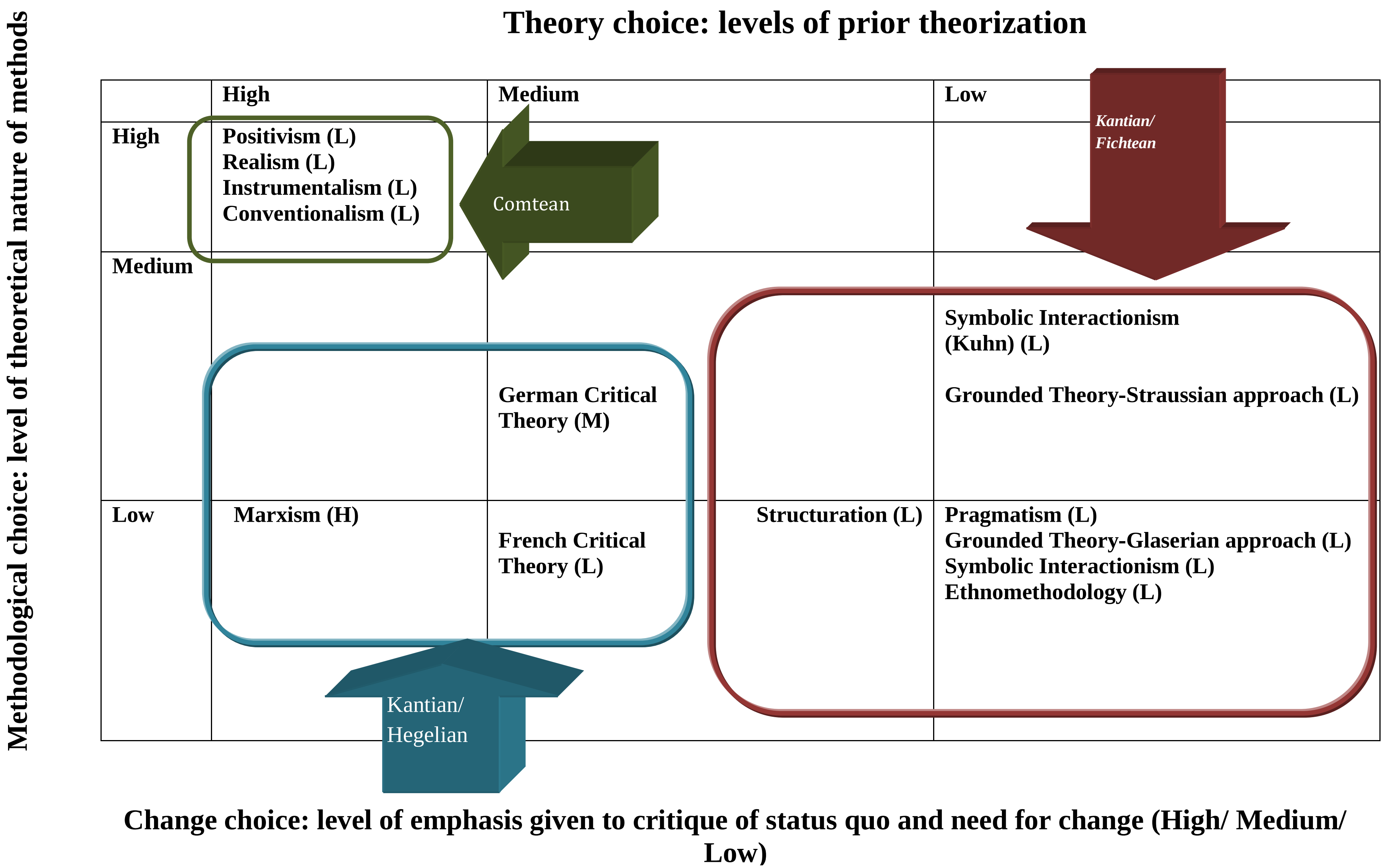
"……….Researchers proposing "high" levels of change are of the view that everything they see is bound to be inadequate and incomplete and in need of change even though not always in a position to engender the change desired. Those who believe in "low" change see little problem in maintaining the status quo. This would also include those who see understanding as an aid to control and thus who may, on occasions, be very proactive in any phenomenon when it deviates away from an accepted equilibrium (i.e. the status quo). Those in the "middle" on this continuum are more strategic in their attitude to change – open to maintaining certain aspects of current functioning but also open to challenging the status quo."

When it comes to the 'medium' position, Laughlin (1995) describes this position as:

"……[it] holds open the possibility that the status quo should continue while also keeping open that change is required. This more balanced perspective, which neither argues that everything is right nor that it is wrong, calls for a rather more sophisticated model of change to make this judgement. It is this change model which is central to this "medium" position on the change dimension" (p.84; square brackets added).

Within the Laughlin (1995) matrix, one is also able to position their research approach from a philosophical perspective (see Figure 3.2) into: the Comtean philosophical perspective (introduced by Auguste Comte 1798-1857) and the Kantian philosophical perspective (introduced by Immanuel Kant 1724-1803). The latter was interpreted by Kant's notable students: Johann Fichte (1762-1814) and Georg Hegel (1770-1831). Hence, the respective hybrid perspectives: Kantian / Fichtean and Kantian / Hegelian. Whilst Figure 3.1 is a useful practical tool, the three dimensions and related research methods within those range of research choices also need to be justified philosophically, because that assists in narrowing the positioning of this research within Figure 3.1.

FIGURE 3.2: PHILOSOPHICAL SCHOOLS OF THOUGHTS (SOURCE: LAUGHLIN, 1995)



The three philosophical schools of thoughts presented in Figure 3.2 may be summarised as follows:

(1) Comtean Philosophical Perspective:

Comte believed that material world exists as distinct from the observer. The material world has definable patterns discovered through formal and defined investigative methods that exclude the desire for change. Four schools of thoughts may be positioned within this philosophical perspective: Positivism, Realism, Instrumentation and Conventionalism. Positivism is the most frequently used philosophical perspective in accounting for those researchers who adopt this philosophical perspective. Positivism is based on the assumption that reality is an object phenomenon that is independent from the observer and one that exists regardless of whether we are aware of it. In addition, the act of investigating and interpreting this reality has no effect on that reality and little regard is paid to the subjective state of the observer (Collis and Hussey, 2003). These four schools of thoughts are tightly located around top - left part of Figure 3.2: High 'Theory', High 'Methodology' and Low 'Change'.

(2) Kantian / Fichtean Philosophical Perspective:

The Kantian / Fichtean philosophy is an extension to Kant's philosophical perspective. Kant believed that neither experience nor reason *alone* can generate understanding. And all discoveries are mediated through human beings making the insights generated always conditional and inevitably subjective. His critique about the "rationalists" is that it generates form without content, while his critique about the "empiricists" is that it derives content without form. More fundamental though is the fact that to Kant, all insights are inevitably subjective because no knowledge is generated distinct from the observer, whose reasoning and experiential powers are not uniform or determined (Laughlin, 1995). Laughlin (1995) states that there are two significant areas of ambivalence in Kantian thought, the first is related to the ontological question about a material existence. If all insights are mediated through experience, then to what degree is reality, real, tangible and distinct from our mental images? The second relates to critique and change in the subjective interpretation of observers. Are there any conditions in which it is possible to say interpretation X by individual Y is incorrect? Neither of these questions and concerns were adequately answered in Kant's writing leading to major differing interpretations even in his own students. Thus, his two most notable students (Georg Hegel and Johann Fichte) came to interpret Kantian thought in totally different ways because of these ambivalences.

As an extension to Kant philosophical stance, his student Johann Fichte posited that knowledge would never be generated as distinct from the observer's uniform reasoning and experience. This perspective denies the existence of a material world as distinct from the observer. Accordingly, all experience is mediated through human beings. From this viewpoint human experience will always be conditional and subjective. Thus, in contrast to positivism, it is virtually impossible to separate the observer from what is being observed. Being a student of Kant, Fichte emphasized the highly subjective side of the ambivalences in Kantian thought. Everything to Fichte was a projection of the observers' minds, thus making a material existence uncertain. Scruton (1982) supports this assertion in the following terms:

"Objects do not depend for their existence on my knowing them; but their nature is determined by the fact that they can be perceived…They are objective, but their character is given by the point of view through which they can be known." (p.18)

In respect of one’s positioning on Laughlin‘s Matrix (1995), the Kantian / Fichtean philosophical perspective is loosely clustered around the Medium to Low theory, Medium to Low methodology and Low change end in Figure 3.2.

A number of research methods may be positioned within this philosophical perspective; Structuration, Ethnomethodology, Symbolic Interactionism and Grounded Theory.

(3) Kantian / Hegelian Philosophical Perspective:

The Kantian / Hegelian perspective stance is “sandwiched” (Laughlin, 1995, p.76) between the two extremes: the Comtean and the Kantean / Fichtean philosophical perspectives. Hegel interpreted Kant’s thinking in such a way as to give emphasis to a material world which could be understood and misunderstood. Hegel believed that the material world exists first and then it is interpreted by the observer. Consequently, any perception of the material world tends to be directed in the first instance towards the physical and visible aspects of it, rather than to the non - physical and invisible aspects. This philosophical perspective poses obvious problems to those researches’ investigating intangible assets.

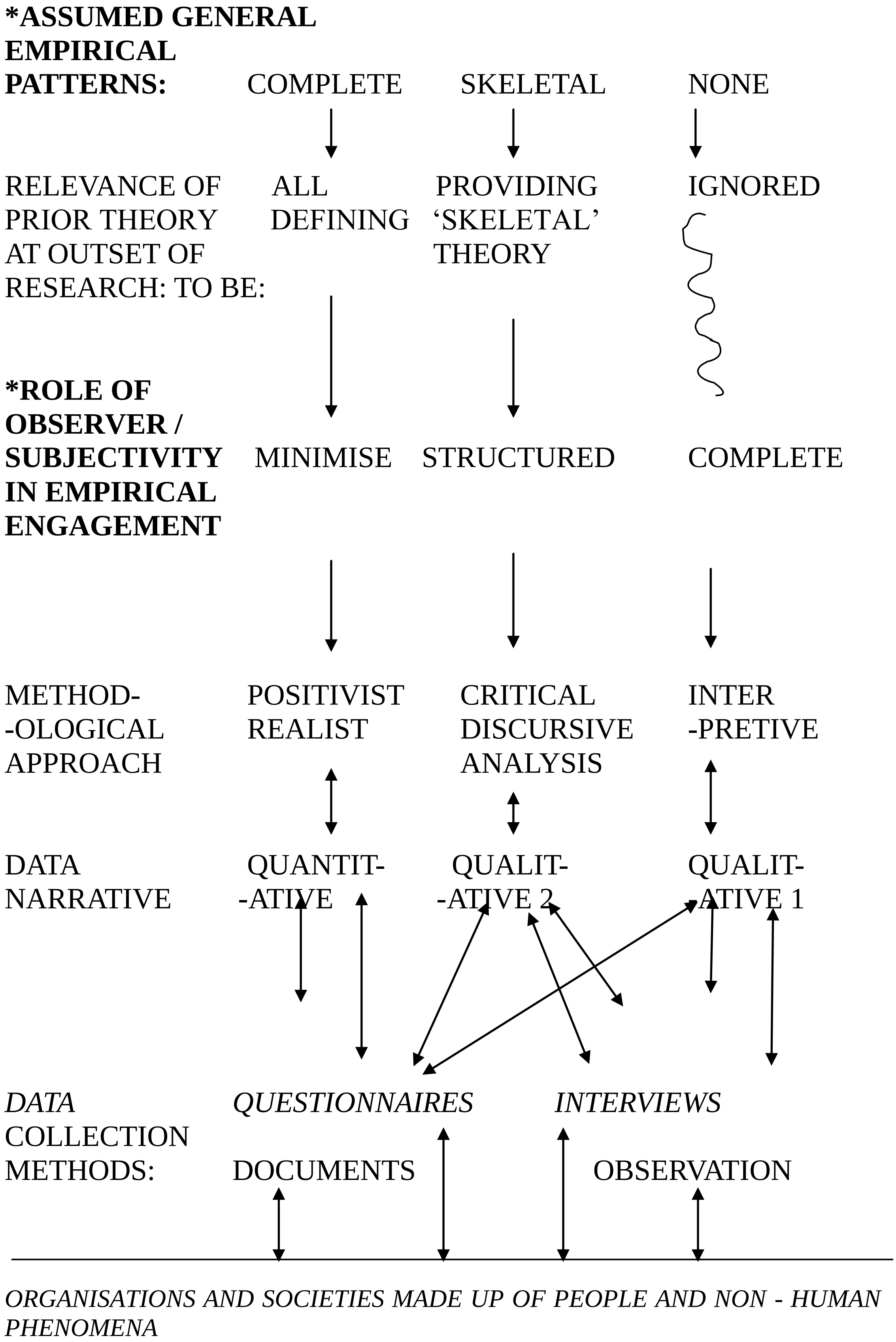
In respect of Figure 3.2, the Kantian / Hegelian perspective embraces the whole range of the Laughlin change dimension: High change, characterised by Marxism, to Medium change, characterised by German Critical Theory, to Low change, characterised by French Critical Theory.

The three philosophical perspectives are summarised in Table 3.1:

TABLE 3.1: THE THREE PHILOSOPHICAL PERSPECTIVES

	Comtean	**Kantian / Hegelian**	**Kantian / Fichtean**
ONTOLOGY	Material world exists- real existence.	Material world exists in the first instance, then any perception of the material world tends to be directed towards the physical and visible aspects of it.	World exists, but with the projection of our minds, thus making a material existence uncertain. Therefore, real actions are required to investigate the existence of the material world towards its nonphysical and invisible aspects of it.
EPISTEMOLOGY	Material world exists distinct from the perception of the users.	Material world exists distinct from our perceptions but is mediated and moulded, to a degree, by our interpretation. It is a world where 'skeletal' generalisations exist but they can never fully reflect reality. Our understanding is accessed through a mixture of structured and subjective processes.	Material world exists but cannot be divorced from the observer's perception of it. Generalisations cannot be assumed to exist. Understanding is subjective and specific.
METHODOLOGY	Structured objective, quantitative in nature.	Definable approach but subject to refinement in actual situations. Structured, subjective qualitative in nature.	Unstructured, subjective, qualitative in nature.

FIGURE 3.3: ALTERNATIVE RESEARCH APPROACH ASSUMPTIONS (Laughlin, 2004, p.272)



Laughlin (2004) explored further the dimension of 'choice', in particular, the diagonal from high / high (top left) to low / low (bottom right) in Figure 3.2. This diagonal is developed twice in Figure 3.3 with regard to the theory and methodological dimensions. As one moves from left to right in Figure 3.3 so it reflects the three diagonal positions categories (Laughlin, 2004). As one moves down Figure 3.3 the first two rows from the top , relate to the theory dimension and the next four rows relate the methodological dimension (Laughlin, 2004, p272). The dimension so far is positioned itself in the third column of Figure 3.3.

Laughlin (2004, p.271-272)) discusses Figure 3.3 as follows:

"The sequencing and arrow flows [in Figure 3.3]…are intended to indicate the primacy of ontology and the links between this and the tendency to rely on prior theories. This is almost a duplicate of the original argument with its categorisation of 'high', 'medium' and 'low' use of prior theories yet, in this case, the descriptors are developed and amplified and the previous somewhat invisible links to underlying ontological assumptions are now made clearer. This ontological choice is seen as the foundation for all other choices that need to be made. A decision on this guides, both directly and indirectly, the remaining choices about methodology and method. This linkage was not clear in Laughlin (1995)."

The starting point in Figure 3.3 is to choose one's position as regards the existence of prior theorising. Laughlin (2004) views accounting as a discipline; it is not like gravity, for instance. Any prior theorizing for accounting would not be a 'full' theory which can explain accounting in practice or, more generally, any empirical phenomenon. This is because accounting exists as part of a material world, but sometimes with the projection of our minds too. It follows that the researcher can interact with the research site, specifically, in the induction of a theory through an interpretative way of thinking. The thesis does not remain within the existing accounting structures. I seek instead to examine the key aspects of the accounting recognition of assets with a view to developing new structures. This is to be done through the use of interviews and questionnaires. Thus, the proposed research approach is located in Figure 3.3 on the Low level of theory (interpretive methodology) dimension and with the complete engagement of the researcher. Accordingly, this thesis is best fitted in the third column of Figure 3.3.

According to Figure 3.2, this thesis can fit into the Kantian / Fichtean philosophical perspective, the research methods that fit this philosophical perspective (low prior theory and low level of methodology) are: Ethnomethodology, Symbolic Interactionism and Grounded Theory.

Ethnomethodology is a research method that concerning the way in which social order is accomplished through talk and interactions between the observer and the respondents (Bryman and Bell, 2007). Its key feature is to focus upon field members' everyday procedures employed to create, sustain and manage their social structure, their interactions and their view of reality (Parker and Roffey, 1997). However, this study is based upon building - up a theory from collecting data from many sources including interviews and questionnaires. So this research methodology would not be appropriate for this study.

Symbolic Interactionism is a research method that views social interaction as taking place in terms of the meanings that actors attach to action and things (Bryman and Bell, 2007). Its key features are:

* to interact with individuals who will produce and define their own definitions of a situation;

* respondents can engage in self - reflexive behaviour (i.e. assessing the contextual meaning of their own actions and reactions); and

* humans interact with each other in negotiating a position in relation to each other (Denzin, 1989, p. 5).

This research method is mainly concerned with inducing a theory by observing the interactions between the respondents and the case being studied, which would not be appropriate here in this research. In contrast, the approach in this thesis is based on iterative process, which aims at increasing the reliability of the analysis of large amount of unstructured research data (Kock, 2002).

Grounded theory is a research method that aims to develop an inductively derived theory out of research data by achieving a close relation between the theory generated and the data collected. Whereas "interactionists regard (observation of) human interaction as their basic source of data" (Denzin, 1989, p. 5), grounded theory generation includes additional data sources such as interviews, written reports and documents that relate to the research phenomenon. This is particularly important for research where much of the work of the "everyday" accountant and manager involves producing, or responding to, written material. Moreover, the use of multiple data sources in interpretive research should improve the validity of subsequent explanations of the accounting and management research phenomena (Scapens, 1990; Parker and Roffey, 1997).

The grounded theory research aims to organize "many ideas which have emerged from analysis of the data" (Glaser, 1978, cited in Strauss, 1987, p. 23) through systematic analysis of documents, interview notes, or field notes by continually coding and comparing data to produce a "well constructed theory" (Strauss, 1987, pp. 22-23). Data collection, analysis and the resulting theory have a reciprocal relationship. The grounded theory researcher, rather than commencing with a theory which he or she attempts to verify, commences with an area of study and allows relevant theoretical constructs to emerge from that process of study.

Based on the above theoretical framework for the grounded theory, Parker and Roffey (1997) locate grounded theory into Laughlin's (1995) matrix according to the type of methodology used. The grounded theory methodology is divided into two schools of thought after the division of its originators: the Glaserian approach (Glaser, 1978; 1992) and the Straussian approach (Strauss, 1987; Strauss and Corbin, 1990, 1998). Both will be discussed later on in this chapter. The Glaserian approach is more consistent with ethnomethodology and so it is located in the "L/L/L" dimensions of Laughlin's matrix. On the other hand, the Straussian approach is located in the "L/M/L" dimensions. The latter is differentiated from the former by "medium" methodology in the research methods dimensions, but both of them have a low level of prior theorization. Parker and Roffey (1997) note the 'structured' and 'critical' aspects of Laughlin's medium methodological positioning…

"…..because of the researcher's additive contribution to the field, members' understanding of their behaviour patterns, and modeling of explanatory, causal theoretical frameworks. In this situation "the person who applies theory becomes, in effect, a generator of theory, and in this instance the theory is clearly seen as process: an ever - developing entity" (Glaser and Strauss, 1967, p. 242; cited in Parker and Roffey, 1997, p218).

Therefore, based on the nature of this research, Straussian grounded theory is considered the most suitable tool to create and innovate new ways in which to deal with the asset - based recognition process. It is adopted herein.

3.2 Grounded Theory

3.2.1 Introducing Grounded Theory

Grounded Theory (GT) is a methodology aimed at the discovery of theory from data (Glaser and Strauss, 1967). Glaser (1992) defines GT as follows:

"Grounded theory is based on the systematic generating of theory from data, that itself is systematically obtained from social research" (p.2).

Strauss and Corbin (1990) define GT as follows:

"A grounded theory is one that is inductively derived from the study of the phenomenon it represents. That is, it is discovered, developed and provisionally verified through systematic data collection and analysis of data pertaining to that phenomenon. Therefore, data collection, analysis, and theory stand in reciprocal relationship with each other. One does not begin with a theory then prove it. Rather, one begins with an area of study and what is relevant to that area is allowed to emerge". (p.23)

Strauss and Corbin (1994) describe the above reciprocal relationship in the following terms:

"…a general methodology for developing theory that is grounded in data systematically gathered and analyzed. Theory evolves during actual research, and it does this through continuous interplay between analysis and data collection" (p.273).

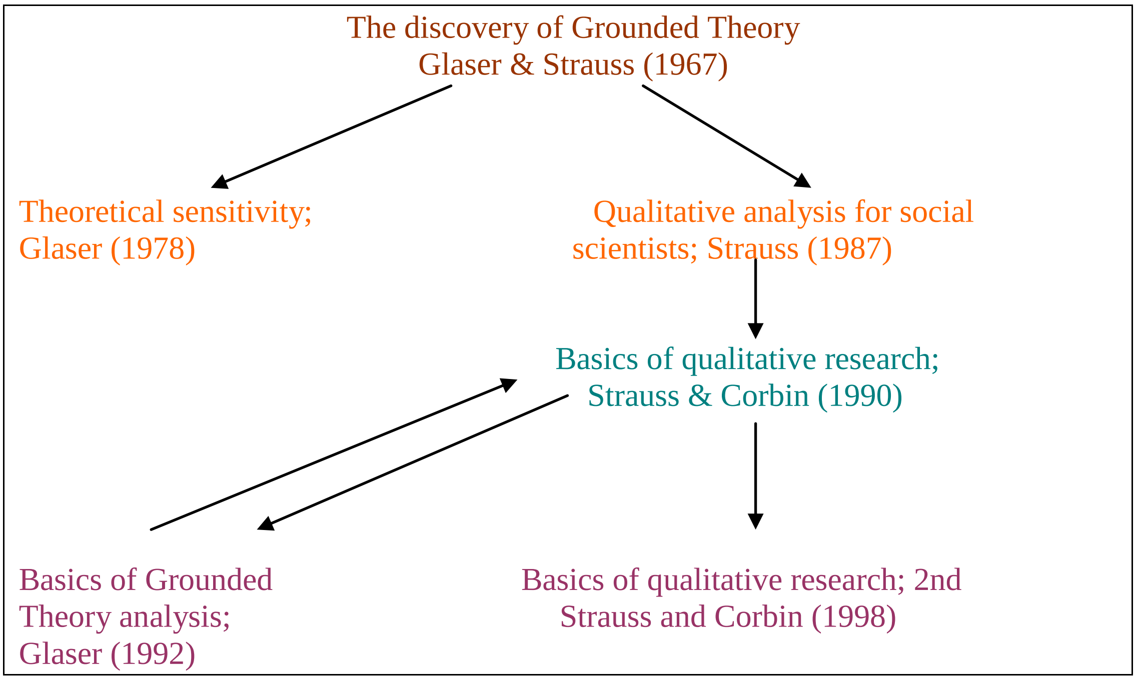
Thus, ones does not test or verify any preconceived hypothesis. Instead of having hypotheses to test, researchers in GT studies have research questions to address. In GT a researcher should be open - minded to any possible evidence that might exist in the dataset (Mansourian, 2006).

Glaser (1992) comments that GT is "inductively generating theory through qualitative analysis of qualitative and / or quantitative data" (p.8), which means that when the GT researcher conducts his / her theory, qualitative analysis can be carried out with quantitative data as well. Glaser and Strauss do not regard the procedures of GT as discipline specific and they encourage researchers to use the procedures for their own disciplinary purposes.

GT is a well - established research method. The originators published a series of books to discuss how to use this research method in social research studies. In 1967, Glaser and Strauss introduced the initial idea in their book title *"The Discovery of Grounded Theory"*, which integrated the epistemological and methodological predilections of both authors (Parkers and Roffey, 1997). The goals of this book are, first, to demonstrate the rationale for grounded theory, second, to address the logic and operation of GT, third, to legitimate careful qualitative research (Reetley, 2004).

Thereafter, as shown in the following figure, the originators began to vary in their thoughts as to how GT should be implemented (Dick, 2000; Smit and Bryant, 2000; Onions, 2007; Goldkuhl, 2007).

FIGURE 3.4: THE SERIES OF GROUNDED THEORY BOOKS {GLASER VS. STRAUSS} (ADAPTED FROM GOLDKUHL, 2007)



In 1987, Strauss wrote a ‘Qualitative analysis for social scientists’ followed by a joint publication with Corbin: ‘Basics of Qualitative Research’ (1990). Their aim was to demonstrate the bases for the data analysis phase and the steps for the coding procedures in generating grounded theory.

As Glaser (1992) felt that the original method of grounded theory had been lost in Strauss and Corbin’s (1990) book, he published his own book in 1992 to set out correctly the methods outlined in their book. Glaser criticized the Strauss & Corbin’s (1990) book and he repudiated their text book as different to the original version of the GT published in 1967. Thereafter, two versions of the GT methodology emerged: the Glaserian and the Straussian approach. The objective is the same (where a theory is developed through the systematic interplay between data collection and data analysis) but the procedures in processing GT are different.

3.2.2 Grounded Theory Methodology Approaches: Glaserian vs. Straussian

The Glaserian and Straussian approaches (Reetley, 2004) diverge in the principles and procedures they follow to generate a grounded theory. The Glaserian approach refers to the principles and procedures to be followed so that a GT ‘***emerges***’ during the course of action of research. Glaser believed that the GT researcher should begin with ‘wonderment’, that is, to keep an open mind to the true issues in the field of research. The Straussian approach, on the other hand, refers to the principles and procedures to be followed in order to ‘***build up***’ a theory. Strauss and Corbin believed that GT researcher should do more than just wait for the theory to emerge. They noted that the GT researcher should begin with a general idea and then he / she needs to develop a more structured approach to the observed coding and data analyses to ‘build up’ a generated theory.

Gurd (2004) argues that Glaserian approch appears to be a more objectivist - realist ontology. This is because Glaser advocates a relatively unstructured method, and resists the codification found in Strauss and Corbin. Strauss and Corbin, on the other hand, are, to repeat, much more willing to adopt a highly prescriptive and structured method. Gurd (2004) argues that it would not be surprising that the more structured approach of Strauss and Corbin (1990) would appeal to accounting researchers because of the attractiveness of its precise procedure and structure.

Table 3.2 shows the similarities and differences between Glaserian and Straussian approaches and this research fits to one of them. The table was created from the following sources: Glaser and Strauss, 1967; Strauss, 1987; Strauss and Corbin, 1990; Glaser, 1992; Stern, 1994; Locke, 2001; Parker and Roffey, 1997; Strauss and Corbin, 1998; Smit and Bryant, 2000; Dick, 2000; Knock, 2002; Allan, 2003; Reetley, 2004; Borgatti, 2005; Onions, 2007; Godkuhl, 2007.

TABLE 3.2: GLASERIAN VS. STRAUSSIAN APPROACHES (SOURCE: AUTHOR)

BASIC CONSIDERATIONS	**GLASERIAN APPROACH (A)**	**STRAUSSIAN APPROACH (B)**	**SELECTING AN APPROACH FOR THIS THESIS (A) or (B)**
1-GENERAL WONDERMENT VS. GENERAL IDEA	Glaser believed that the GT researcher moves into an area of interest with 'abstract wonderment', that is, completely open - minded as to what is going on in the field of research and how other individuals handle it. For Glaser, the research question is not a statement that identifies a phenomenon under study. The core research questions are: what is the chief concern / issue for the individuals in the area under study? and what category (features) does that issue concern?	"….the research question in the grounded theory study is a statement that identifies the phenomenon to be studied" (Strauss and Corbin, 1990, p.38). This means that the researcher should have a general idea of where to begin.	No 'general wonderment'. The phenomenon is identified from what could be considered as missing in the existing conceptual framework for financial reporting in general and for assets recognition process in particular. **Then, approach (B) is more appropriate to this research.**
2- EMERGING VS. FORCING	The Glaserian approach selects an area for study and allows issues to emerge during the course of the research process. Glaser argued that the GT researcher should not "force" the problem to emerge by	The Straussian approach allows the GT researcher to predetermine the general subject of enquiry before entering the research site. One of the major advantage of Straussian approach lies in its more structured and practically oriented method in	Allowing the generated theory to emerge may be important, but giving it a structure and oriented focus is more important. Parker and Roffey (1997) argue that: "Strauss and Corbin are significantly more detailed, structure and prescriptive in

	the methodology taken. Glaser (1992) views the Straussian approach as a full conceptual description, and this would constitute 'forces' on the data in order to produce theory.	generating grounded theory. This approach assists the researcher to analyse qualitatively and make sense of an often large volume of gathered field data.	specifying the steps to be taken by a researcher in open, axial and selective coding, and following their paradigm model (identifying codes as causal conditions, phenomenon, context, intervening conditions, action / inaction strategies, consequences) for theoretical framework development…Strauss and Corbin's approach offers great potential assistance to the field researcher, who must nevertheless take particular care to avoid "forcing" or imposing concepts that reflect the researcher's own predispositions rather than those emerging from interaction with the study site and its participants." (p.222, 224) **Then, approach (B) is more appropriate to this research.**
3- DISCIPLINED RESTRAINT VS. ACTIVE PROVOKING.	Glaser calls for disciplined restraint, in which researchers hold distance and independence from the phenomena they are studying.	Strauss and Corbin suggest that GT researchers play an active role in the research process. They should interrogate the data they collect, in order to arrive at conceptual categories.	In this study, the researcher plays an active role in the interviews and questionnaires, but without leading interviewees and the respondents. **Then, approach (B) is more appropriate to this research.**
4- THEORETICAL SENSITIVITY refers to the personal ability, awareness, as well as the degree of	Glaser defines the theoretical sensitivity as the ability of the GT researcher to recognise what is important in data and to give it meaning. Theoretical sensitivity	The theoretical sensitivity has two sources: first, when the GT researcher is well grounded in the technical literature, as well as from professional and personal	Theoretical sensitivity does not appear to be a deciding factor between both approaches. Glaserian approach prefers the complete interaction and immersion in the phenomenon being studied. The same happens with the

the researcher's perceptiveness to the research data, variables and relationships in the phenomenon being studied.	comes from the immersion in the data.	experience. Second, when theoretical sensitivity is acquired during the research process through continual interactions with the data.	Straussian approach but with the aid of the literature review. **Approach (B) is chosen as a matter of preference.**
5- CREATIVITY	Glaser (1992) argues that whilst much of the creativity is not just new ideas, nevertheless, there may instead be new connections between conceptual thoughts. This puts a premium on the 'discovery' of the generated theory.	Many analytic techniques that the GT researcher uses to develop theoretical sensitivity are "creative and imaginative in character…..good science is produced through this interplay of creativeness and skills acquired through training" (Strauss and Corbin, 1990, p. 47).	Accounting as a discipline, and the CF for financial reporting are regarded as a sociological construct existing as a medium for interaction between social actors and society. The evolution of that construct as society changes over time is a balance between human imagination and existing skills that forms Straussian approach. A**pproach (B) is more appropriate to this research.**
6- USE OF LITERATURE REVIEW	Glaser (1992) recommends that grounded theory must be free from the idea of working on someone else's product. This stems from the concern that the GT researcher should avoid contaminating his / her ideas during the early stages in generating the theory. But after data has been collected,	Strauss and Corbin (1990) have different point of view in the use of literature. They divide the literature review into technical and non - technical. Technical literature is useful to stimulate the theoretical sensitivity of the GT researcher in the substantive area under study. Technical literature also helps to stimulate research questions. Lastly,	In this research, it is important to examine the literature review in respect of the 'assets recognition process' and the critiques related to the existing CF. The literature review is also important at a later stage in conducting the theory specifically to compare with the existing CF for financial reporting. Then, **approach (B) is more appropriate to this research.**

	coded, compared and analysed (while the theory is generated), then the researcher may begin to review the literature in the substantive field and relate the literature to her / his own work.	technical literature is effective as supplementary validation, in the later phase of writing up the theory the GT researcher can make reference to appropriate literature to validate the accuracy of her / his findings. Non - technical literature is useful as primary data, especially in biographical or historical studies, or as supplementing data to the more usual interviews and observations.	
7- CODING IN THE GROUNDED THEORY is the process conducted by the GT researcher in an iterative manner, which aims at increasing the reliability of the analysis of a large body of unstructured research data.	Coding should be less rigorous through a constant comparison of incident to incident with neutral questions and categories and properties evolving. The GT researcher should be aware of not to 'over - conceptualize' the identified key points.	Coding is more rigorous and defined by technique. Coding represents the operation by which data are broken, conceptualized and put back together in new ways. Codes are derived from 'microanalysis', which means analyzing data line - by - line at the beginning of the study to generate codes.	For coding procedures, both approaches are essentially inductive. The data to be collected is the primary sourced comprising interviews that are well written, structured, explicit and even 'pre-coded' through keywords and headings. Whilst it may be useful to define codes as one goes along, suggesting a Straussian approach, it may be equally valuable to allow definitions to evolve and not affect the assigning of codes or the emergence of new ones (Onions, 2007). However, since the researcher would like to use 'microanalysis' then **approach (B) is more appropriate to this research.**
8- TYPES OF CODING	There are two coding phases or types: 'simple' (where the researcher fractures the data and	Three types of coding, open (identifying, naming, categorising and describing phenomena), axial	Similar 'coding' approach, different labels. **Approach (B) is selected as a matter of**

	then groups it) and 'substantive' (open or selective) to produce categories and properties.	(the process of relating codes to each other) and selective (choosing a core category and relating other categories to that).	**preference.**
9- Verification of the theory.	"GT looks for what is, not what might be, and therefore, needs no test." (Glaser, 1990, p.67). One of the primary conflicts between Glaserian and Straussian approaches, is that the former approach does not verify the generated theory after development.	"Regardless of level of theory, there is built into this style of extensive interrelated data collection and theoretical analysis an explicit mandate to strive towards verification of its resulting hypothesis (statements of relationships between concepts). This is done throughout the course of a research project, rather than assuming that verification is possible only through follow - up quantitative research" (Strauss and Corbin, 1994, p.274).	This research would result in a theory generation for an 'asset recognition process'. Theory generated would need to be verified. This would be done through the comparison with the existing conceptual framework and the working or the proposed framework for financial reporting that is currently under study by the IASB and the FASB. Then, **approach (B) is more appropriate to this research.**

On balance, this research will be conducted using the Straussian approach.

3.2.3 Conducting Grounded Theory and the Role of Pre - existing Theories

In principle, grounded theory should not be based on existing theories. The generation of the grounded theory is to build on observation and / or data collected, without submitting to any prior theory. That said, in accounting research it is difficult to avoid impact of existing studies and conceptual frameworks:

"Theories developed by grounded theory research methods are not necessarily intended to stand alone but may be intended to be related to existing theories within the accounting domain, amplifying and extending our current understandings of the phenomena in question. The collation and codification of data from observations and inquiries allow the drawing out of broader implications that may stretch beyond the particular case being studied and advance a deeper understanding of accounting in practice" (Parker and Roffey, 1997, p.241).

This is an important aspect especially for this research. This research is based on developing and constructing a theory for assets recognition criteria whilst acknowledging the existence of asset recognition criteria in the CF for financial reporting. Thus, to repeat Parker and Roffey, it may be argued that I am "amplifying and extending our current understandings of the phenomena in question".

3.3 Grounded Theory Research Structure

Strauss and Corbin (1990) show that the purpose of the grounded theory methodology is to build up a theory that is

"…faithful to and illuminates the area under study. Researchers working in this tradition also hope that their theories will ultimately be related to others within their respective disciplines in a cumulative fashion and that the theory's implications will have useful application". (Strauss and Corbin, 1990, p.24)

The GT researcher develops his / her theory alternating between inductive and deductive approaches (Collins and Hussey, 2003). First, the GT researcher inductively gains information which is apparent in the data collected. Next, the GT researcher isolates themselves from this data and thinks deductively about the missing information and forms conclusions based on logic. When conclusions are drawn, the researcher returns back to an inductive approach and tests these tentative hypotheses with the new and / or existing data. By returning to the data, the deducted suggestions can be supported, rejected or modified. Finally, the supported or modified data can be used to form hypotheses and investigated completely. This inductive / deductive approach and the constant reference to the data are the dynamics of the grounded theory development.

3.3.1 Elements of Grounded Theory

The researcher should decide the elements of the GT from the phenomena studied, which in this thesis is the pre-measurement asset-based recognition process. The phenomenon is defined as the central ideas in the data represented as concepts. There are three elements the GT researcher should decide them before carrying on his/ her grounded theory; *concepts, categories and propositions* (Corbin and Strauss, 1990). **Concepts** are the building blocks of the theory. Strauss and Corbin (1998) describe a concept as follows:

"A concept is a labeled phenomenon. It is an abstract representation of an event, object, or action / interaction that a researcher identifies as being significant in the data. The purpose of naming the phenomena is to enable researchers to group similar events, happenings, and objects under a common heading or classification. Although events or happenings might be discrete elements, the fact that they share common characteristics [properties] or related meanings enables them to be grouped". (p.103; brackets are added; cited in Pandit, 1996).

The second element of grounded theory is the **categories.** Corbin and Strauss (1990) define categories as:

"Categories are higher in level and more abstract than the concepts they represent. They are generated through the same analytic process of making comparisons to highlight similarities and differences that is used to produce lower level concepts. Categories are the "cornerstones" of developing theory. They provide the means by which the theory can be integrated". (p.7; cited in Pandit, 1996).

The third element of the grounded theory is **propositions** (termed 'hypotheses' by Glaser and Strauss, 1967) which indicate generalised relationships between a category and its concepts and between subcategories and categories. Strauss and Corbin (1998) describe the propositions as those which suggest how phenomena (main concepts) might possibly be related to each other.

The application of the GT terms in the context of this thesis is expressed in Table 3.3.

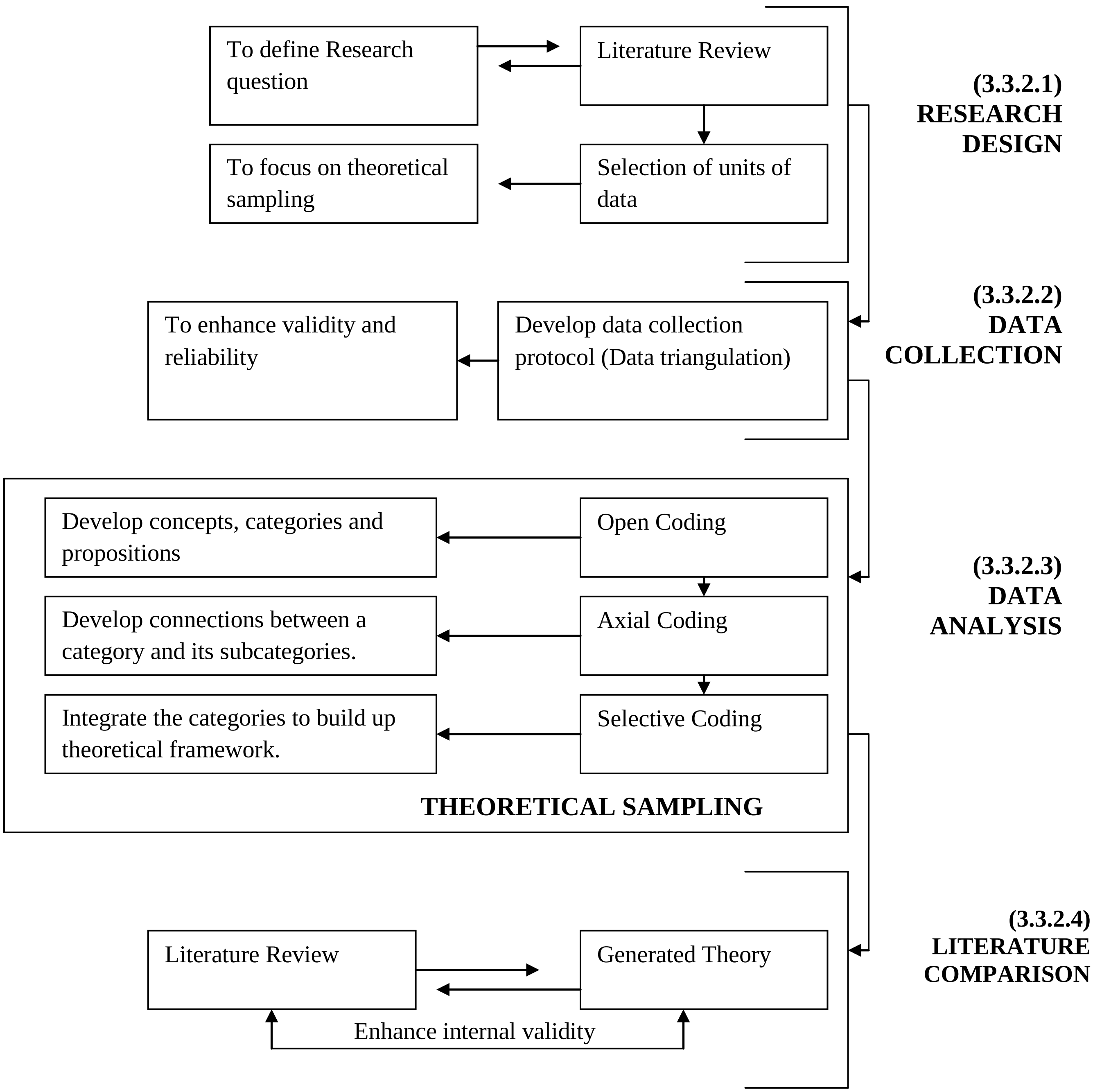
Table 3.3: The GT TERMINOLOGIES USED IN THIS RESEARCH STUDY (SOURCE: AUTHOR)

Terminology	**What does it mean in this research study**
Phenomenon	A pre - measurement asset - based recognition process
Concepts	How to recognise assets
Categories	Asset - based Recognition Criteria or Features
Propositions	Causal and interrelationships between the induced recognition criteria
Properties	Characteristics of each criterion and sub criterion
Dimensions	The range that forms each Criterion
Subcategories	Sub criteria

3.3.2 The Process of Generating Grounded Theory

The process of generating the grounded theory is iterative, requiring a steady movement between concepts and data, as well as requiring a constant comparison across types of data collection, and analysis to provide an evidence to control the process of developing the theory. There are four stages to be followed to generate the theory that are illustrated in Figure 3.5

FIGURE 3.5: FLOWCHART TO SHOW THE PROCESS OF GENERATING GROUNDED THEORY (ADOPTED FROM: PANDIT, 1996)



3.3.2.1 Research Design

The grounded theory researcher should not stand isolated from the research subject as the positivist researcher attempts to do. Instead, the grounded theory researcher refuses to accept prior commitment to any particular pre - existing theory. When getting started, the grounded theory researcher has to "profess neutrality or lack of subjectivity" (Parker and Roffey, 1997, p.224). Although in this stage, where the grounded theory researcher's decision to select a particular research project reflects the individual's perspective on research GT does not assume neutrality or lack of bias on the part of the researcher.

The first step in this stage is to review literature so as to define the research question. This step is important in building up or generating the theory as it focuses the efforts of the researcher (Pandit, 1996). Strauss and Corbin (1990) delineate the use of (1) the technical literature review and (2) the non - technical literature review:

> "…reports of research studies and theoretical and philosophical papers characteristic of professional and disciplinary writing, while the non - technical literature review can be biographies, diaries, documents, manuscripts, records, reports, catalogues and other materials that can be used as a primary data or supplement interviews and field observations in grounded theory studies" (p.48).

As regard the accounting literature Parker and Roffey (1997) apply this dual focus as follows:

> "In accounting research, 'technical research literature' include existing research reports and major theoretical debates. 'Non - technical research literature' would include accounting reports, financial and management information, organizational annual reports, minutes of meetings, policy documents, memos and so on" (p.227-228).

Strauss and Corbin (1998) suggest that the technical and non - technical literature review is a source for choosing a problem and stating the research question, where this can be a "stimulus" (p.37) and "if it is used as an analytic tool, then it can foster conceptualization" (p.53). Therefore, the literature review is the first important step in this research, from which the research questions are constructed based on the existing literature review.

Once research questions have been constructed and the research is focused, **the second step of research design is to select the unit of data** (Pandit, 1996). The unit of data (or the raw data on which the research is built upon) should be selected according to the principle of theoretical sampling:

> "The process of data collection for generating theory whereby the analyst jointly collects, codes, and analyses his data and decides what data to collect next and where to find them, in order to develop his theory as it emerges" (Glaser and Strauss, 1967, p.45, cited in Pandit, 1996, p.4).

Accordingly,

> "Unlike the sampling done in quantitative investigations, theoretical sampling cannot be planned before embarking on a grounded theory study. The specific sampling decisions evolve during the research process itself" (Strauss and Corbin, 1990, p192, cited in Pandit, 1996).

The unit of data in this research was the technical literature on asset - recognition process.

Strauss and Corbin (1990, p52) support this approach and state that:

> "The literature can be used as secondary sources of data. Research publications often include quoted materials from interviews and field notes and these quotations can be used as secondary sources of data for your own purposes. The publications may also include descriptive materials concerning events, actions, settings, and actors' perspectives that can be used as data using the methods described".

Accordingly, the 'initial unit of data' is the literature review on asset - based recognition process. Thereafter, additional units of data (empirical unit of data) are selected one at a time to test and extend the theory of asset - recognition process until the theoretical sampling is saturated. The point at which theoretical sampling ceases is **'theoretical saturation'**. Glaser and Strauss (1967) describe this point as where:

> "…no additional data are being found whereby the (researcher) can develop properties of the category. As he sees similar instances over and over again, the researcher becomes empirically confident that a category is saturated ... when one category is saturated, nothing remains but to go on to new groups for data on other categories, and attempt to saturate these categories also". (p. 65; cited in Pandit, 1996, p. 4).

In this research, to repeat, the first unit of data is the literature review and this is recommended by the Straussian approach as discussed in Table 3.2. The second unit of data is chosen to be 'interviews' with the Canadian Accounting Standards Board or CaASB members, International Accounting Standards Board - IASB members and some field experts (academics and practitioners) to fill in the theoretical categories of the generated theory. Finally, the third case is chosen to be 'questionnaires' sent to experts mainly standard regulators from different countries. The questions were tested prior to their distribution by reference to an interview conducted with UK ASB's Technical Director. These three units of data were chosen to build up theory and in order to validate and enhance the internal coherence of it. I grounded every additional case on the outcome of the previous one.

After the analysis of these four units of data, the marginal improvement to the pre - measurement asset - recognition process was minimal. Theoretical saturation with the selected units of data had been approached and the decision to conclude the research was taken. Martin and Turner (1986) support this idea and state the following:

"By the time three or four sets of data have been analysed, the majority of useful concepts will have been discovered" (p.149).

3.3.2.2 Data Collection

To enhance validity and reliability, the GT approach advocates the use of multiple data sources converging on the same phenomena. Glaser and Strauss (1967) point out to this as follows:

"In theoretical sampling, no one kind of data on a category nor technique for data collection is necessarily appropriate. Different kinds of data give the analyst different views or vantage points from which to understand a category and to develop its properties; these different views we have called slices of data. While the [researcher] may use one technique of data collection primarily, theoretical sampling for saturation of a category allows a multifaceted investigation, in which there are no limits to the techniques of data collection, the way they are used, or the types of data acquired" (p.65; brackets are added).

The use of multiple data collection can be achieved through the use of 'data triangulation'. Thurmond (2001) illustrates this metaphor as follows:

"The triangulation metaphor used in research was derived from construction, surveying, and navigation at sea. The premise was based on the idea of using two known points to locate the position of an unknown third point, by forming a triangle (Britannica, 2000). The intent in research is to use two or more aspects of research to strengthen the design to increase the ability to interpret the findings. Triangulation is the combination of two or more data sources, investigators, methodological approaches, theoretical perspectives or analytical methods within the same study. These combinations result in data triangulation, investigator triangulation, methodological triangulation, theoretical triangulation or analytical triangulation….The benefits of triangulation can include increasing confidence in research data, creating innovative ways of understanding a phenomenon, revealing unique findings, challenging or integrating theories, and providing a clearer understanding of the problem" (p.253).

The main benefits of using data triangulation and multiple data sources in theoretical sampling are to enhance validity and reliability (Pandit, 1996). The 'reliability' would, to repeat, be enhanced through the preparation of interviews and questionnaires.

Turning now to data collection protocol I carried out two sets of interviews. The first set was conducted with the Canadian Accounting Standards Board members in May 2008 during CAAA in Winnipeg, Canada and the IASB members in June, 2008 during their monthly meeting, London, UK. This first round of interviews was useful for determining the preliminary concepts and categories which have been used to construct the second round of interviews with academics and experts in the accounting recognition field. Combining then the concepts and categories obtained from the first two rounds of interviews and I then constructed a questionnaire combined with an interview with the UK ASB director as the final unit of data. The questionnaires were sent to standard regulators from different standard accounting boards in different countries. Theses questionnaires were sent using an online survey called 'monkey survey'.

So in this research, there are two types of data collection protocol: 1- Interviews and 2- Questionnaires.

The interviews were the central technique used under the framework of grounded theory. There are different types of interview techniques in order to collect data depending on the way one asks the interview questions. Johnson (2001, p104) states that the in - depth interviews can be :

"…as a way to check out theories, they [researchers] have formulated to verify independently knowledge (or triangulate)…or to explore multiple meanings of or perspectives on some actions or events or settings"

and Taylor and Bogdan (1998, p88) define in - depth interviews as:

“…face - to - face encounters between the researcher and informants directed toward understanding the informants' perspectives on their lives, experiences, or situations as expressed in their own words”.

These interviews, however, were semi - structured in the sense that:

…’most of the informant's responses can't be predicted in advance…and you as interviewer therefore have to improvise probably half and maybe 80 % or more of your responses to what they say in response to your initial prepared question or questions’ (Wengraf 2001, p. 5).

Semi - structured, in - depth interviews were dynamic in this research. The style of questioning and discussion offer greater flexibility than a survey - style interview and provide “a more valid explication of the informant's perception of reality"” (Minichiello et al. 1995, p. 65). Semi - structured, in - depth interviews had the appearance of a regular conversation, but in every interview there was a controlled conversation oriented towards the interviewer's research interests.

There were 13 interviews conducted with accounting standard - setters, notably those concerned with the revising the elements and the definitions in the proposed revision to the IASB’s CF, currently ongoing.

Patton (2002, p244-245) mentioned that for the small group interview:

“In - depth information from a small number of people can be very valuable, especially if the cases are information rich.......the validity, meaningfulness, and insights generated from the qualitative inquiry have more to do with the information richness of the cases selected and the observational / analytical capabilities of the researcher than with the sample size”.

In this research, the interviewees explored new ideas and enriched the research by their personal experiences without any type of constraint or any other forces. All the interviews were audio - taped and then transcribed. Notes were taken during the interviews. In addition, general reflection notes (regarding interview contexts, apparent relationships between different interviews and contexts, particular researcher impressions on the way how each interviewee can express the CF for financial reporting and their reactions to the interview questions etc.) were also prepared immediately after the interviews. The primary criterion for determining the number of interviews was data saturation or redundancy (Lincoln and Guba, 1985), that is, when an additional interview did not yield any significant new insights.

After the interviews the final round questionnaires were, to repeat, sent to selected respondents online using ‘survey monkey’. Evans & Mathur (2005, p197) comment that

“The Internet will then be an even more valued tool to obtain information from respondents living in different parts of a country or around the world, simply and at a low cost” (p.197).

To improve the validity and reliability of the generated theory I was very careful in choosing knowledgeable respondents. I also sent the first 10 questionnaires to some Canadian CF experts as a pilot study to confirm the understandability and the design of the questionnaires. The feedback led to improvements in the questions. I did not send questionnaires to those who were interviewed, rather to other standard setters from United Kingdom, Australia, Canada, Germany and USA. This was done to ensure the validity and reliability of the generated theory by assessing a wide range of ‘informed’ respondents. As shown in table 3.4, the questionnaire was designed using steps from Oppenheim (2001); this structure provides steps and decision to decide how to develop a survey. The following table shows these steps and how they are adopted in this research.

TABLE 3.4: STEPS TO DEVELOP A SURVEY (ADOPTED FROM OPPENHEIM, 2001)

Steps to develop a survey	How these steps are adopted in this research
1- The main type of data collection instruments: such as interviews, postal questionnaires, online surveys.	To achieve the aim of data collection at this stage, which is to strengthen the integrated parts of the generated theory, I prefer to use an online survey (survey monkey) which is very convenient to distribute the link to the questionnaire and it saves time, as I sent it to Canada, to USA, to Australia, to Germany and UK.
2- The method of approaching the respondents.	I sent them emails introducing the research, confidentiality of their responses and the link to the questionnaire.
3- The build up of the questions.	The questions are grounded from the axial codes generated during the axial analysis.
4- The type of questions used.	The questions were closed type of questions ranging from strongly oppose to strongly support.

The questionnaires were structured in a format that used a five point likert scale and analysed using the SPSS package. Given the small number of respondents (because of the knowledgeability requirement) and the selectivity of the sampling process the statistical analysis was necessarily simplistic. Combined with this questionnaire, a structured open responses interview with UK ASB director was conducted. This structured open ended interview is characterized by being an intermediate form between a structured questionnaire and unstructured questionnaire (King, 1994), structured open-responses interview was specifically chosen to reflect the exploratory power of the research and to reach to a theory saturation.

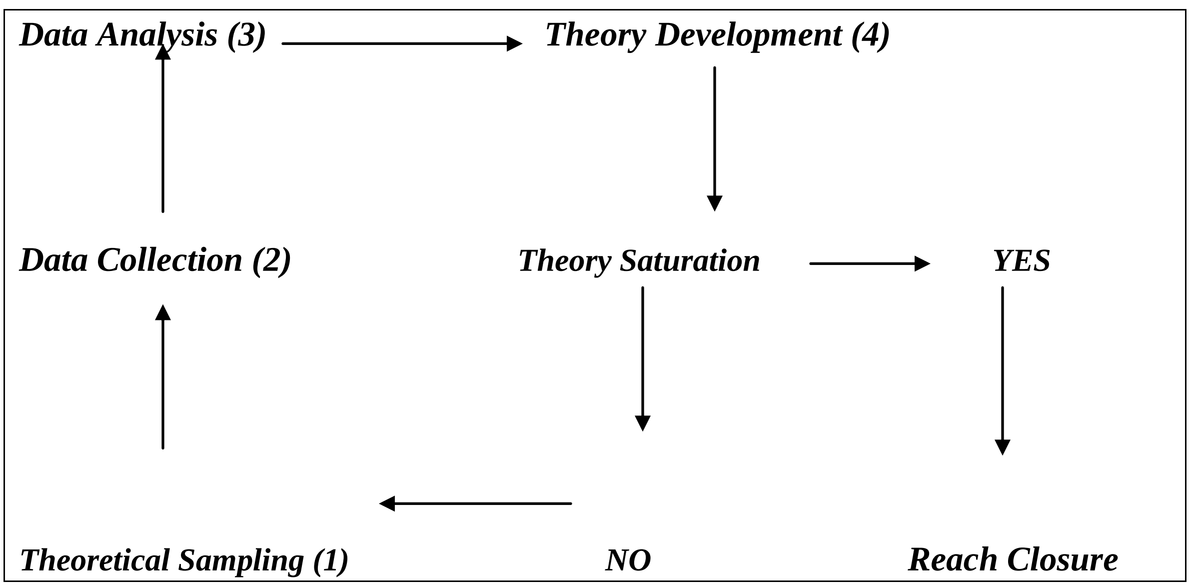
3.3.2.3 Data Analysis (Grounded theory coding structure)

After collecting data, the next stage is the data analysis or 'coding structure' stage. Glaser and Strauss (1967, p43) illustrate the grounded theory dynamics as follows:

"Joint collection, coding and analysis of data are the underlying operation. The generation of theory, coupled with the notion of theory as process, requires that all three operations be done together as much as possible."

It can be seen from Figure 3.6 that the data analysis or 'coding structure' is a central stage in the interrelated process between data collection, data analysis and theory development.

FIGURE 3.6: THE INTERRELATED PROCESSES OF DATA COLLECTION AND DATA ANALYSIS TO BUILD GROUNDED THEORY (SOURCE: PANDIT, 1996)



Strauss and Corbin (1990) state that:

"Coding represents the operations by which data are broken down, conceptualized, and put back together in new ways. It is the central process by which theories are built from data". (p.57)

Analysis in grounded theory is composed of three major types of coding (according to the

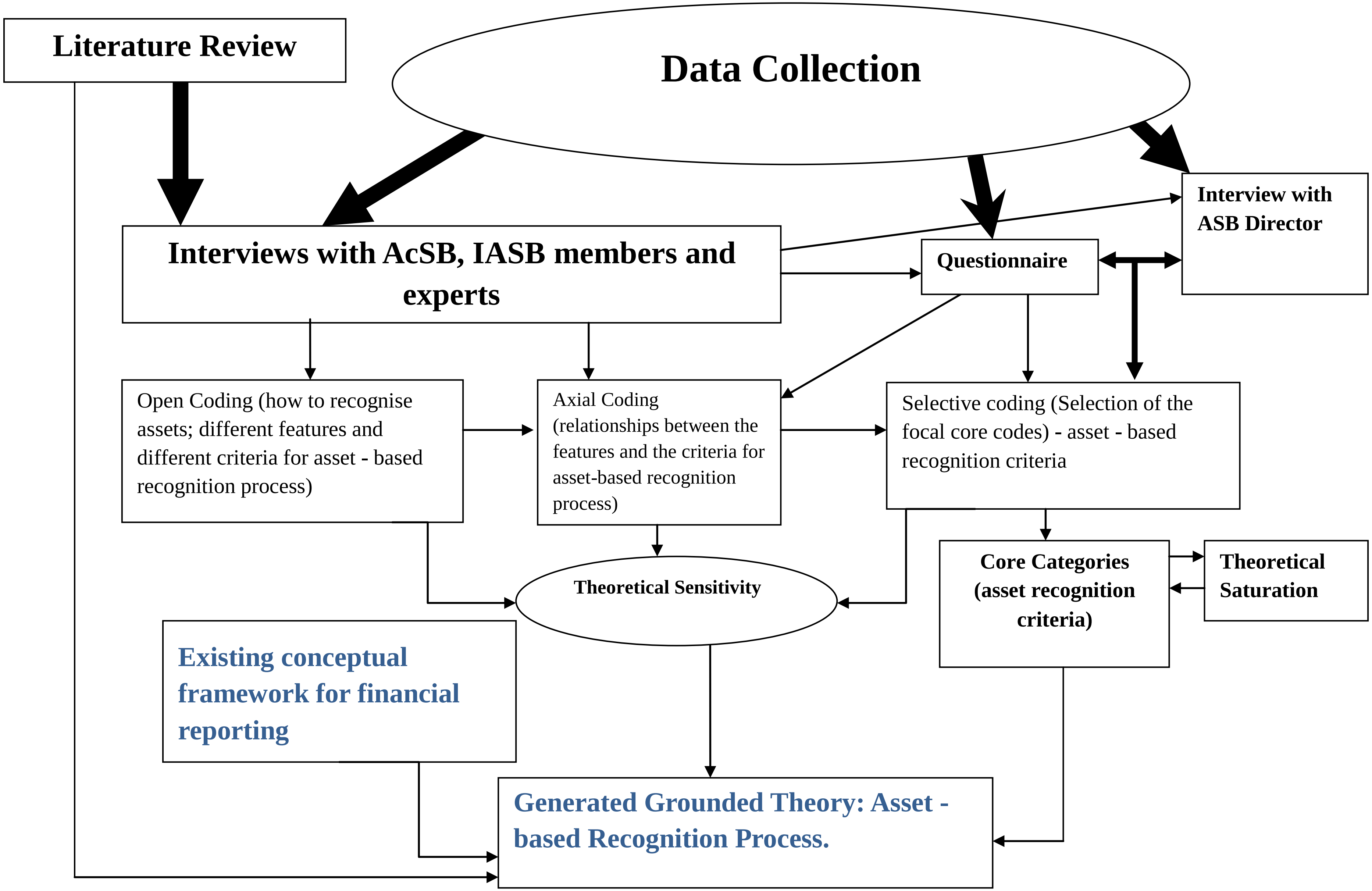
Straussian approach). These are (a) open coding (b) axial coding and (c) selective coding, addressed next.

Open coding is the first basic analytical step in the coding procedures. Strauss and Corbin (1990) define ‘open coding’ as:

“…the process of breaking down, examining, comparing, conceptualizing and categorizing data” (p61).

There are two analytic procedures to the coding process: *Generating categories* and *asking questions about the data* in order to give the concepts in the grounded theory their precision and specificity. According to the Straussian approach, *generating categories* arises from making comparisons of incident - to - incident (action - to - action), then, when concepts emerge, incident to concept, which is how properties of categories are generated (Reetley, 2004). Additionally, one may *ask simple questions* such as what, where, how, when, how much….etc. Subsequently, the data is compared and similar incidents (actions) are grouped together. This is when labeling of the phenomena (core categories) takes place. The process of grouping concepts at a higher, more abstract, level is termed categorising (Pandit, 1996). In this research, open coding, as shown in Figure 3.7, was done by asking questions of the interviewees and, thereafter, the open categories were generated as shown in Table 4.2 (next chapter).

FIGURE 3.7: THE GROUNDED THEORY GENERATED: ASSET - BASED RECOGNITION PROCESS



Axial coding is:

"…a set of procedures whereby data are put back together in new ways after open coding, by making connections between categories. This is done by utilizing a coding paradigm involving conditions, context, action / interactional strategies and consequences" (Strauss and Corbin, 1990, p.96).

The main function of axial coding is to put data back together in new ways by making connections between a category and its subcategories. The axial coding does not refer to relating several main categories to form an overall theoretical formulations (as this is related to selective coding), but to the development of what will eventually become one of the several main categories. At this point, the GT researcher is still concerned with the development of a category, yet this development extends beyond properties and dimensions (Strauss and Corbin, 1990).

Strauss and Corbin (1990) explain that the focus of axial coding is on specifying the core category in terms of the conditions that give rise to it, the context (its specific set of properties) in which it is embedded, the action / interactional strategies by which it is handled, managed, carried out and the consequences of those strategies - referred to as subcategories (Reetley, 2004). Strauss and Corbin (1990) maintain that in GT subcategories are linked to a category in a set of relationships denoting causal conditions, phenomenon, context, intervening conditions, action / interactional strategies, and consequences – see Figure 3.8.

FIGURE 3.8: THE AXIAL CODING PARADIGM MODEL (SOURCE: STRAUSS AND CORBIN, 1990)

(A) CAUSAL CONDITIONS (what leads to?)

(B) CORE CATEGORY (IES)

(C) CONTEXT (set of properties)

(D) INTERVENING CONDITIONS (the broader set of conditions in which each core category is couched)

(E) ACTION / INTERACTION STRATEGIES (actions and responses that occur as a result of this core category)

(F) CONSEQUENCES (outcomes)

Strauss and Corbin (1990) explain Figure 3.8 sequentially as follows: ‘Causal conditions’ are the events that lead to the development of the core categories. ‘Context’ refers to the particular set of conditions, the intervening conditions and the broader set of conditions in which the each core category is couched. ‘Action / interaction strategies’ refer to the actions and responses that occur as the result of the core category and finally, the outcomes, both intended and unintended, of these actions and responses are referred to as ‘consequences’ (see Pandit, 1996). I used this approach to action the axial coding stage. Specifically, to find out what are the conditions leading to the core categories which constitute the pre - measurement asset - based recognition (phenomenon), then what are the set of subcategories for those core categories. For each core category, there are actions and responses that occur as a result of this core category. Finally, the intended consequence will be recognition in the financial statements.

Between open coding and axial coding, there is constant interplay between proposing and checking, thus while coding, the researcher moves constantly between inductive and deductive thinking. This back and forth movement is what constructs the grounded theory. The final theory is limited to the categories, their properties and dimensions, and the statements of relationships that exist in the actual data collected (Strauss and Corbin, 1990).

Selective coding is defined:

"as the process of selecting the core category, systematically relating it to other categories, validating those relationships, and enriching categories that need further alteration and development" (Strauss and Corbin, 1990, p.116).

The *'focal core category'* is defined as the vital phenomenon around which all the other categories are integrated (Strauss and Corbin, 1990, 1998). The focal core code definitions and dimensions will be tested, modified and refined during the research process. All other core codes derived from that axial coding process must be related in some way to this focal core code, either directly or indirectly (Strauss and Corbin, 1990, 1998; Goddard, 2004). Therefore, the axial coding forms the basis for the selective coding as the researcher has "categories worked out in terms of their salient properties, dimensions, and associated paradigmatic relationships, giving the categories richness and density" (Strauss & Corbin, 1990, p. 117). Accordingly, the researcher should, at the point of selective coding, have noted all possible relationships between major categories along the lines of properties and dimensions, as well as begun to formulate some conception about what his research encompasses. Hereafter, the researcher should be ready to convert the raw data to a systematically developed picture of reality that is conceptual, comprehensible, and above all grounded (Reetley, 2004).

Strauss and Corbin (1990) suggest several steps to accomplish this coding: the first involves explicating the story line, about the core categories and their subcategories. The *second* consists of relating subsidiary categories around the core category by means of the paradigm, as shown in Figure 3.7. The *third* involves relating categories at the dimensional level. The *fourth* entails validating those relationships among these categories, subcategories, properties and dimensions. The fifth and last step consists of filling in categories that may need further refinement and / or development. The researcher does not necessarily take these steps in linear sequence, but moves back and forth between them. At the end of this stage of coding, the data are now related not only at the board conceptual level, but also at the property and dimensional levels for each major category. Once the researcher reaches this point, the *"rudiments of a theory"* (Strauss and Corbin, 1990, p.133) arise.

In this research, I construct a coding structure from the interviews in the first two rounds I conducted with the Canadian Accounting Standard Board members, International Accounting Standard Board members and with experts in the field, this coding structure constitutes the basis for the axial coding stage, where some concepts emerge with their related categories, properties and dimensions. These concepts were the basis for the next data collection round, comprising an interview with UK ASB director and a subsequent questionnaire. During the selective coding stage, the results from the questionnaire revealed that there were some concepts which were of less significance than the others (so these concepts represent the background of the theory), while others emerged in the context of the research.

3.3.2.4 Literature Comparison

The final step was to compare the generated theory with the extant literature and examine what way it is similar, what way it is different, and why. For as Eisenhardt (1989) states:

> "Overall, tying the emergent theory to existing literature enhances the internal validity, generalisability, and theoretical level of the theory building from case study research ... because the findings often rest on a very limited number of cases."(p.545)

3.4 Summary

This chapter discussed in detail the research methodology adopted in this research study. It was organised into three main sections.

The first section discussed overarching philosophical perspectives. Specifically, the Comtean, Kantean / Fichtean and Kantian / Hegelian perspectives as located on Laughlin's (1995) theory, method, choice matrix. I locate my research in a Kantian / Fichtean perspective that favours a research interpretive stance towards the research site. Within this perspective I decided that the grounded theory was the most suitable method to be adopted for my research.

The grounded theory method, as an interpretive research methodology, was discussed in the second section. Specifically, an outline description about its history and the two methods: the Glasserian and Straussian methods. The final section describes how the Straussian grounded theory method was implemented within the context of this research study, an indication of data collection rationales and a description of the steps to be taken during the empirical data collection.

The empirical data collection will comprise two sources: interviews and questionnaire in the form of an online survey. These different sources were integral part of the development of the generated theory. The next chapters will discuss the empirical findings and the results from the open coding analysis (chapter 4), the axial coding analysis (chapter 5) and finally the integration of the questionnaire with interview to finalise the generated theory in the selective coding analysis (chapter 6).

Chapter 4: First Stage of Data Analysis

4.0 Introduction

In this chapter I discuss the findings revealed from two rounds of interviews. The questions asked in the first round were based on themes initially induced from the literature. Theoretical concepts and related categories emerged from these interviews and were coded using the Straussian open coding approach, as discussed in chapter 3. This coded analysis was then used to guide the construction of the questions for the second round of interviews, notably in respect of the incomplete concepts and / or missing categories as perceived by me from the first round of interviewees' responses. Again, these second round interviews were coded so that the combined volume of coded data from both rounds could move progressively towards a position of theoretical saturation for the identified concepts and categories.

In view of the above, this chapter is divided into the following sections:

Section 4.1 Interview Protocol: Design, getting access and contacting the interviewees

Section 4.2 Findings and Initial Analysis: Open Coding Stage

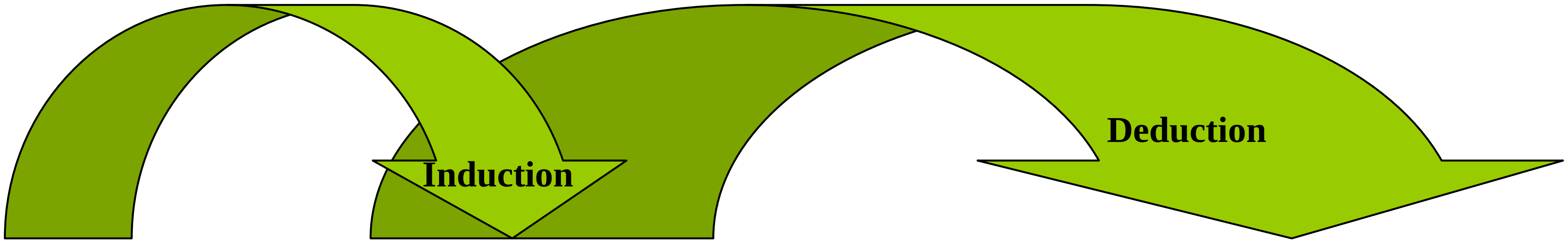
Section 4.3 Summary.

4.1 Interview Protocol: Design, getting access and contacting the interviewees

In - depth, semi - structured interviews were conducted for both rounds of interviews. I, first, piloted the interview questions with two Canadian accounting professors, whose equivocation showed me that only those interviewees with a personal interest in the field of asset recognition possessed 'the necessary expertise'. Thereafter, it became necessary to target those parties who were directly involved in the IASB's conceptual framework or who had published in response to the development of this framework. In total, thirteen interviews were conducted with key accounting personnel who possessed the necessary expertise in the field of asset recognition: two interviews with Canadian Accounting Standards Board members, five interviews with existing International Accounting Standards Board members, three senior accounting academics with the above expertise and finally, one interview was conducted with a practitioner from Ernest & Young Ltd who has experience in this area.

As stated earlier, the first round of interview questions sought to discuss the main themes or categories initially induced from the literature, so that these themes could be rejected / confirmed / modified and then categorised. The second round of interview questions were induced from the first round interviews transcripts. This induction - deduction thinking was applied to show how the open categories were generated based upon Strauss and Corbin grounded theory approach. The broad framework of questioning is shown in Figure 4.1.

FIGURE 4.1: INTERVIEW QUESTIONS FRAMEWORK



Literature Review	**Themes**	First round of interview questions	Interviewees' views in summary	Impact of the first round on the second round of interview questions.
The literature is often content focused on semantic nuances, whilst leaving the overall definition - led approach intact (see Schuetze, 1993; Egginton, 1990; Booth, 2003; Walker, 2003; Walker and Jones, 2003; Erhard, 2004; Johnson, 2004; Bullen and Cook, 2005; Gore and Zimmerman, 2007; Miller and Bahnson, 2007).	**Asset definition**	The definition of an asset appears to occupy a central role in the accounting recognition and measurement of assets. Would you agree? And, if you do agree, please give your views on that role for asset recognition and measurement purposes.	The definition of an asset will suffice for asset recognition purposes and there is no need to have an intermediate 'asset recognition stage' between compliance with the asset definition and an asset's subsequent measurement.	We deduced from the first round of interviews with IASB Board members that: (a) In respect of the five basic elements of accounting (assets, expenses, liabilities, income and capital) primacy is given to the definition of an asset. What is your view on this deduction? (b) The definition of an asset will suffice for asset recognition purposes and there is no need to have an intermediate 'asset recognition stage' between compliance with the asset definition and an asset's subsequent measurement. What is your view on this deduction?

There is an overlap between asset recognition criteria and asset measurement (Whittington, 2008).	**Asset recognition vs. measurement**	Common features of existing asset recognition criteria refer to the linkage to the definition of an asset, in particular, the ability to generate future economic benefits and that those benefits should be measured reliably. Do you have any views about the adequacy of such criteria for the purpose of recognising and measuring assets in the financial statements? Do you have any views on the assertion that intangible asset recognition should be before asset measurement despite the obvious problem of recognising something that is intangible in nature?	The asset definition with qualitative characteristics [relevance, faithful representation etc] is enough. There should not be any additional separate recognition criteria. Deletion of conservatism and more emphasis is given to neutrality. 'Neutrality' as a qualitative characteristic of accounting information which means that assets and liabilities should, in principle, be treated the same. It is incumbent upon accounting practitioners to recognise prospective liabilities then the same applies to prospective assets.	One Board member argued that *the asset definition with qualitative characteristics [relevance, faithful representation etc] is enough. I do not think we need additional separate recognition criteria.* What is your view on this assertion? One Board member interpreted *'neutrality' in the 'faithful representation' of accounting information as meaning that assets and liabilities should, in principle, be treated the same. Since it is incumbent upon accounting practitioners to recognise prospective liabilities then the same applies to prospective assets*. What views do you have on this assertion? *Assets should have the same accounting treatment like that of the Liabilities.* What do you think about this assertion, particularly after deleting the 'conservatism' from the proposed framework for financial reporting?

			Assets should have the same accounting treatment like that of the Liabilities.	
Are asset 'rights'? (Booth, 2003; Fisher, 1906; Weetman, 1989; Samuelson, 1996, IASB, 2006 & 2007).	**Rights**	Do you have any views on the assertion that, in general, a business cannot use an asset unless it has a 'right', legal or otherwise, to do so? Whilst there are clearly 'rights' attached to the recognition of an asset, for example, ownership rights, can you think of any 'rights' attached to the measurement of assets?	The recognition of assets is predominantly about the recognition of 'rights', legally enforceable or otherwise.	What is your view on the assertion that the recognition of assets is predominantly about the recognition of 'rights', legally enforceable or otherwise?
As regards the uncertain value assertion, there is no entity – specific transactions-based measurement or market-specific valuations - based measurement (Maines et.al; 2003, AcSB, 2006).	**Market vs. entity events**	Please look at card 1, which defines what is meant by 'market-specific' and 'entity-specific' events. In comparison with market specific events, what is your view on the assertion that the	The asset - based recognition process is an entity event. While only asset measurement is a market event.	What is your view on the assertion that whatever measurement basis or bases are used, they should be observable rather than predictive methods?

		accounting recognition of an asset is an entity-specific event?		
Assets have both a resource dimension (where a resource is that which produces benefits) and a property dimension (where property is taken to be a set of legally sanctioned rights over things and between persons with respect to things) (Pallot, 1990; Honore, 1961).	**Economic resource**	Please look at card 2, which lists some functions of an asset. In what way, if at all, do you think that should functionality be part of the asset recognition process?	In the definition of an asset the term 'economic resource' is typically expressed in terms of access to future cash flows – a measurement.	In the definition of an asset the term 'economic resource' is typically expressed in terms of access to future cash flows. Do you have any view on the assertion that the <u>nature</u> of that 'economic resource' should recognised first and, if so, do you see any linkage to the issue of 'rights'?
As regards the notion of 'separability', it has a role in the asset - based recognition process (ASB, 1995; Napier & Power, 1992; Egginton, 1992; Upton, 2001).	**Separability**	Please look at card 3, which defines what is meant by a separable" asset, commonly referred to as separability. Please give your views on the role of separability in the accounting asset recognition process? Napier and Power (1992) introduce the term "Measurement Separability", which collapses the three stages - identification,	Separability is an implementing device in the asset-based recognition process. Separability is linked to unit - of - account issue.	What is your view on the necessity, or otherwise, of separately recognising and separately measuring an asset, rather than as a bundle of assets?

		recognition and measurement - into one stage on the basis that if one can measure an asset, de facto, one has simultaneously identified and recognised it. In what way would you agree or disagree with this term?		
The dominance of the transaction based leads to exclude many assets from the financial statements (Tollington, 2001).	**Transaction - based dominance**	Do you have any views about whether and how non - transactions - based or internally generated intangible assets could be disclosed in the financial statements?	The transaction based should be broadening to include more asset - type.	Do you have any views about whether and how non - transactions - based or internally generated intangible assets could be disclosed in the financial statements?
The boundary between an asset definition and an expense definition is not clearly delineated an asset from an expense (Scheutze, 1993).	**An asset vs. an expense**	Do you have any views about the ability of the existing asset recognition criteria to distinguish an asset from an expense?	Again no clear boundary between an asset and expense.	Do you think that the proposed definition will be enough to delineate an asset from an expense?
It is not the assets per se that are measurable, rather, it is their function that is measurable. The function envisaged here is the	**Asset measurement**			In a pre - measurement phase; a. What is your view on the assertion that only one measurement basis should be used in accounting?

capacity to increase or decrease business value through holding assets (capital gains or losses) or using assets (revenue gains or losses) to increase or decrease income (whether realised or not), the increases or decreases being known together as comprehensive income (Bertoni and De Rosa, 2005; Cauwenberge and De Beelde, 2007; IASB, 2003; Newberry, 2003; Barker, 2004).			b. What is your view on the assertion that, wherever possible, assets should not be measured individually and, therefore, not as bundles of assets? c. What is your view on the assertion that whatever measurement basis or bases are used, they should be observable rather than predictive methods? d. Any asset measurement should attempt to faithfully represent current economic phenomena - the key word being "current", not past or future?
Going concern as an accounting assumption that underpins accounting generally and asset recognition in particular (see Tweedie and Whittington, 1990).	**Going concern**		Would you regard the going concern concept as a feature of the asset recognition process?

Given the above 'necessary expertise' requirement, one hurdle was getting access to the relevant interviewees. The starting point was contacting accounting regulators who had been or who were currently interested in the IASB's conceptual framework developments. In March 2008 Canadian Accounting Standards Board members, AcSB member (1) and AcSB member (2) (see the table below) , were contacted and subsequently interviewed. Similarly, in April 2008 an email was sent to Hilary Eastman, an IASB member, requesting an interview. Eastman subsequently arranged appointments with IASB member (2) and IASB member (4) during the monthly IASB meeting in June 2008. Later, I sent an email to IASB members, IASB member (1) and IASB member (5), asking for appointments. All of them were happy to help and to take part in this research study. A similar response occurred with the second round of interviews. The interviewees were emailed and the appointments were arranged by phone. All the interview protocols were sent to all the interviewees before the interview appointment so that they had enough time to consider their content. Table 4.1 shows the personal details of the selected interviewees:

TABLE 4.1: DETAILS OF THE INTERVIEWEES:

INTERVIEWEE (anonymously)	**LOCATION AND DATE**	**TYPE OF INTERVIEW**	**INTERVIEWEE'S CREDENTIALS (AT THE TIME OF CONDUCTING THE INTERVIEWS)**
Accounting expert (1) (Pilot Study)	Winnipeg, Canada. May, 2008	Face-to-face interview	Ph.D., C.G.A., Chartered Accountant Research Fellow, School of Business, University of Manitoba, Chairman for the CAAA-2008
Accounting expert(2) (Pilot Study)	Winnipeg, Canada. May, 2008	Face-to-face interview	Professor of Accounting College of Business, Oregon State University
AcSB member (1)	Winnipeg, Canada. May, 2008	Face-to-face interview	A Canadian Accounting Standards Board *staff* member, who has been working on the IASB's Conceptual Framework project, in particular, the elements and recognition phase.
AcSB member (2)	Winnipeg, Canada. May, 2008	Face-to-face interview	A Canadian Accounting Standards Board member

IASB member (1)	IASB head office, London, UK, June 2008	Face-to-face interview	Currently he is an IASB member. He was appointed a member of the FASB in October 1987 and became its vice - chairman in January 1988.
IASB member (2)	IASB head office, London, UK, June 2008	Face-to-face interview	Currently she is an IASB member. The IASB member (2) has been active in accounting standard-setting activities for many years, having served as a member of the FASB.
IASB member (3)	IASB head office, London, UK, June 2008	Face-to-face interview	Currently she is an IASB member. She works on the IASB project for intangibles.
IASB member (4)	IASB head office, London, UK, June 2008	Face-to-face interview	IASB member. He was a founding member of the G4 1 Group of national accounting standard setters
IASB member (5)	IASB head office, London, UK, September, 2008	Face-to-face interview	Director of research project for the measurement phase
UK ASB member	Judge Business School , Cambridge University, September, 2008	Face-to-face interview	Emeritus PricewaterhouseCoopers Professor of Financial Accounting, and Life Fellow of Fitzwilliam College, University of Cambridge . Senior Associate of CFPA, Judge Business School. Member of the Accounting Standards Board, UK and Ireland (part - time).
IASB research fellow	Judge Business School , Cambridge University, September 2008	Face-to-face interview	He was Director of the Cambridge MBA from 2003-2008. He is a former Research Fellow of the International Accounting Standards Board.
Accounting expert (3)	September 2008	Phone interview	Ernst & Young, Oslo*
Accounting expert (4)	October 2008	Phone interview	Head of Bristol Business School. His research interest in financial reporting theory.

*At the beginning Mr Robert Overend was contacted (a UK ASB member and a Technical Partner in Ernst and Young's Financial Reporting Group) but he was busy and could not give a time despite four email reminders

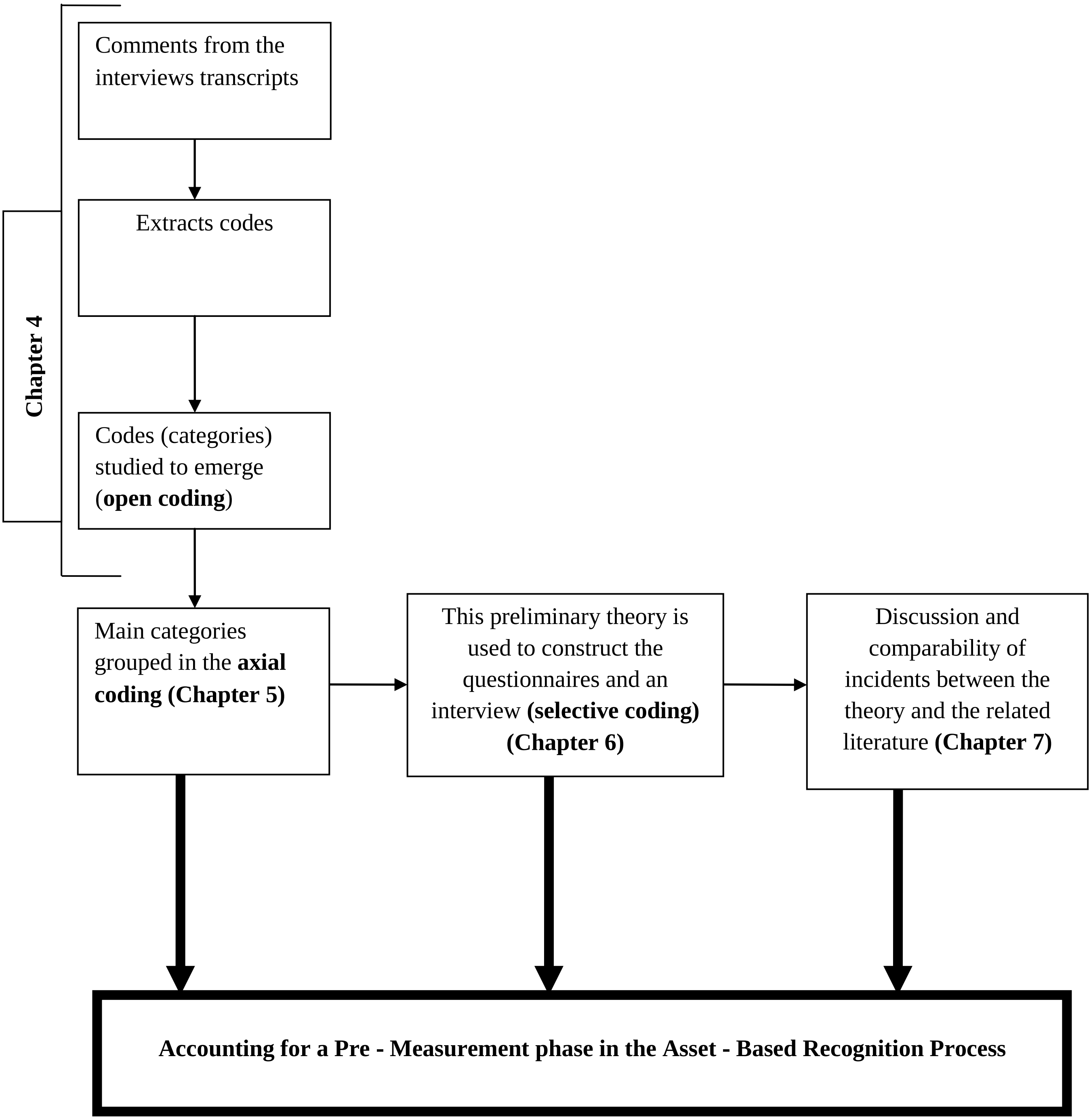
With the permission of the interviewees, all the interviews were audio - taped using a digital dictation machine. Each interview was then transcribed as accurately as possible. These thirteen transcripts (approximately around 80,000 words) were used as the basis for data analysis in the rest of this chapter, chapter 5 and as a preliminary ordering of the design of the questionnaires in chapter 6.

Each interview was analyzed manually to show what the interviewees meant, the meanings being the selected raw data for the coding of the dataset. The use of NVivo software as an analysis tool was rejected for the following reason:

> *"the software [NVivo] is less useful in terms of addressing issues of validity and reliability in the thematic ideas that emerge during the data analysis process and this is due to the fluid and creative way in which these themes emerge. Of course, details can be checked on the content of particular nodes and this could affect the inter - relationships of the thematic ideas, but in terms of searching through the thematic ideas themselves in order to gain a deep understanding of the data, NVivo is less useful simply because of the type of searching it is capable of doing"* (Welsh, 2002, p.12).

There was therefore bound to be a high level of researcher involvement in this analysis and the induction process inevitably involved researcher bias because the coding and categorization of meanings is always subject to the ambiguity of language where, for example, subtle nuances can be missed or misunderstood. Strauss (1987) and Lincoln & Gupta (1985) suggest that coding is complete when the analysis itself appears to have run its course, that is, when all the incidents have been coded and where categories are 'saturated' as to the content of their coded meanings. Figure 4.2 shows the discovery process of the emergent theory.

FIGURE 4.2: THE DISCOVERY PROCESS OF THE GENERATED THEORY FOR A PRE - MEASUREMENT ASSET - BASED RECOGNITION PROCESS:



4.2 Findings and Initial Analysis: Open Coding Stage

Open coding involves the analysis of the GT researcher's interview transcripts on a line - by - line, paragraph - by - paragraph basis. Categories form the basis for later aggregation into concepts (Parker and Roffery, 1997). After analysing the interviews transcripts (appendix c) these open categories are grouped and organised in Table 4.2. At this stage the open categories are conceptualised in the light of the questions asked in the interview transcripts.

TABLE 4.2: CATEGORIES AROSE DURING THE OPEN CODING ANALYSIS

Predetermined Open codes	Open Categories
4.2.1 Asset definition	4.2.1.1 Asset definition occupies a central role in the asset - based recognition process 4.2.1.2 Asset definition is a contestable social construction 4.2.1.3 Conceptual primacy
4.2.2 Economic resources in respect of asset - based recognition process	4.2.2.1 Economic Resource 4.2.2.2 Future economic benefits 4.2.2.3 Probable benefits 4.2.2.4 Scarcity 4.2.2.5 Uncertainties
4.2.3 Rights	4.2.3.1 Legality and control 4.2.3.2 Preventing access by other entities 4.2.3.3 Legal vs. non - legal rights 4.2.3.4 To control, to use, to manage, to capital, to income, to security, to transfer (Disposal), to time horizons (life of an asset), to prohibition to harmful use, to execute liabilities, to a residuary character 4.2.3.5 Entity power 4.2.3.6 Voluntary vs. non - voluntary
4.2.4 Market - specific vs. entity specific event	4.2.4.1 Entity specific 4.2.4.2 Market specific
4.2.5 Separable asset - based recognition	4.2.5.1 Separability as an implementing device 4.2.5.2 Unit - of - account 4.2.5.3 Aggregation and disaggregation 4.2.5.4 Lowest vs. highest level of aggregation 4.2.5.5 Asset bundles 4.2.5.6 Measurement separability 4.2.5.7 Capability of transference
4.2.6 Asset recognition test phase	4.2.6.1 Pre - measurement phase 4.2.6.2 Measurable asset 4.2.6.3 Qualitative characteristics for financial information as an alternative basis for asset

	recognition criteria **4.2.6.4 'Relevance' as a qualitative characteristic for financial reporting** **4.2.6.5 Reliability vs. Representational faithfulness** **4.2.6.6 Decision usefulness** **4.2.6.7 Prudence vs. neutrality**
4.2.7 Criteria for asset measurement bases	**4.2.7.1 Asset measurement** **4.2.7.2 Nominal measurement vs. real measurement** **4.2.7.3 Observable current measurement vs. predictive future measurement4.2.7.4 Measurement bases**
4.2.8 Supporting devices for asset - based recognition	**4.2.8.1 Going concern** **4.2.8.2 Documentary and / or physical** **4.2.8.3 Some assets are not recognised**

4.2.1 Asset definition

In asking the interviewees the question

> The definition of an asset appears to occupy a central role in the accounting recognition and measurement of assets. Would you agree? And, if you do agree, please give your views on that role for asset recognition and measurement purposes

…the following categories arose:

4.2.1.1 The asset definition occupies a central role in the asset - based recognition process

The interviewees confirmed the following:

The assets are where a business starts. No assets equates to no business.

UK ASB member:

I think it's right that the natural thing to start with is to define an asset, simply because assets are where business starts. If there are no assets, there's no business.

The centrality of the asset definition

AcSB member (2) :

[The definition of an asset appears to occupy a central role in the accounting recognition and measurement of assets. Would you agree?] Absolutely. Where the

conceptual framework has gone, the asset one comes first because the liabilities one is a mirror of the asset one. I would absolutely agree.

IASB member (1) :

It's the only real thing. There isn't anything sacred about that.

IASB member (2) :

[The definition of an asset appears to occupy a central role in the accounting recognition and measurement of assets. Would you agree?] I do agree, I think that the definition of an asset is central. If we think about a firm, a firm has assets and has claims against those assets. This is the way I think about it and the claims are...either we classify some as liabilities and some as equity but all are claims against the entity. So, liabilities are claims against the assets, equity is a share in net assets. So, it does not only play a central role in accounting but it plays a central role in economics of firm if you think about it. How to assess claims?

IASB member (4):

The definition of an asset is critical because that is the filter, if you like. That's what you must go through for something to be recognized as an asset. That is critical.

IASB member (5):

The only other people who do it the way we do are diplomats when they talk about recognizing a country, you know, as if mainland China wouldn't exist if you didn't recognize it. I think there's a lot of 'tension' around recognition. Intellectually and logically, anything that meets the definition of an asset should be recognized in the financial statements.

<u>The three IASB members –IASB member (1), IASB member (2) and IASB member (4) rely on compliance with the definition of an asset as the "only" basis for recognizing an asset – a selective social construction. Accounting expert (3), on the other hand, argues the case further, adding criteria to the definition of an asset.</u>

IASB member (1) :

It's the only real thing. There isn't anything sacred about that.

IASB member (2) :

[The definition of an asset appears to occupy a central role in the accounting recognition and measurement of assets. Would you agree?] I do agree, I think that the definition of an asset is central. If we think about a firm, a firm has assets and has claims against those assets. This is the way I think about it and the claims are...either we classify some as liabilities and some as equity but all are claims against the entity. So, liabilities are claims against the assets, equity is a share in net assets. So, it does not only play a central role in accounting but it plays a central role in economics of firm if you think about it. How to assess claims?

IASB member (4):

The definition of an asset is critical because that is the filter, if you like. That's what you must go through for something to be recognized as an asset. That is critical.

Accounting expert (3):

first of all, the asset and liability definitions, as in the current framework, and also as proposed by the boards now, are vague. It's unclear what falls within them and what falls without them. If that's going to be the only recognition criteria, we're going to have trouble.

4.2.1.2 The asset definition is a contestable social construction

The interviewees confirmed the following:

<u>There is ambiguity in the meaning conveyed in the conceptual framework</u>

AcSB member (2) :

"I think the conceptual framework should be written in a way that people can understand it. I think that's one of the things that I dislike about accounting documents. You'll regularly see them use a term that has a totally different meaning in day to day living. It isn't defined, so how can it possibly be a useful communication? It has a meaning other than what you would expect, and I'm using it in a way that I know. I don't define it anywhere, so how can I communicate to you? I would be really careful of the word 'right.' I think they need something other than saying 'or otherwise' if they're going to write a proper conceptual framework."

IASB member (5):

There is that tension between definition and recognition, and that leads some people to believe, including a lot of our constituents, that there should be a *separate recognition criteria, which should somehow define the class of things that meet the definition that are recognised. Now, in the new definition, one of the concerns about the work that has been done on the new definition of an asset is the question in some people's minds, including mine, that it has so broadened the definition of an asset, compared to the old definition, that increases the tension because now all of a sudden blue sky and fresh air might meet the definition of an asset……… A definition has to both describe what it is and what it is not. That's to the extent that a new definition doesn't do a good job about defining what it is not. That's going to increase the tension about needing to have a separate recognition criteria.*

<u>The asset definition, which is a prominent feature of the conceptual framework, should describe 'what is' *and* 'what is not' an asset.</u>

IASB member (5):

"A definition has to both describe what it is and what it is not. A new definition doesn't do a good job about defining what it is not. That's going to increase the tension about needing to have a separate recognition criteria."

<u>The probability of asset's existence would be peculiar to intangibles, not tangible assets.</u>

IASB member (5)

The only other people who do it the way we do are diplomats when they talk about recognizing a country, you know, as if mainland China wouldn't exist if you didn't recognize it.

<u>In respect of intangibles, separability would be a property of an "asset's existence".</u>

UK ASB member

[Do you think existence will come before meeting the definition or in the pre - measurement phase?] I think probability of existence is the point. Things do exist or not exist, unfortunately. We have to estimate whether they exist when it comes to these uncertain things like intangible assets and provisions for future. [So do you think the existence comes before the definition or after it? In order to know whether a thing exists, or to assess the probability of it existing, you need to have a precise view of what you're looking for… [Existence here, when an asset exists, should this asset be separable?] That's a very interesting question because if it isn't separable, when I come to measure it, it will be included in the total anyway. The issue then is at what level. I noticed there you said at what level of aggregation, should you operate? I'd say any level below the total business, as long as it's a meaningful level. By a meaningful level, I mean one at which the business itself would exchange this asset…. [I think the word separability

supports your view for the existence] Yes. [In order to exist, it should be separated]. Yes.

4.2.1.3 Conceptual primacy

The interviewees confirmed the following:

<u>Since 'assets' are the basis for developing any model of measuring wealth of the organization. The Asset-Liability view has conceptual primacy over the Revenue-Expense view.</u>

AcSB member (1) :

"You have to start somewhere in preparing financial statements, and no one comes up with another model that starts anywhere other than the 'assets'. I think that it is the intuitive place to start. If I am going to develop a model of measuring the wealth of my organization, and the changes in the wealth of my organization, the logic of where to start is by looking at the things I've got, and that's the 'assets'. [Then you agree with the view that Asset - Liability is the conceptual primacy for all elements in the financial statements]. Yes. [As there is a conflict or a debate in the accounting literature whether to start with Asset - Liability view or Revenue - Expense view]. The point that I tried to make this morning is that there are people definitely who argue about Revenues - Expense view. But then if you challenge them to ask them how they define Revenue & Expense to start with, that view, to my knowledge, no one comes up with workable definition of revenues and expenses that does not draw back on Asset & Liability. Whilst Revenue & Expenses in the income statement may be argued to be more important in some cases, there is no way to just start there. You have to start with real things, which is things you've got, you have then claims to those things, and then after that comes the changes in things which are income and expenses".

IASB member (1) :

"Assets are real, liabilities are real. Everything else is dreams of accountants." [So you agree that the Asset / Liability view has conceptual primacy…?] "Yes, nothing else works."

IASB member (2) :

"Assets are the place to start…that is, the central role …primacy is just the way to calculate income and expense in a way that makes sense to me."

IASB member (4):

"There is no doubt that the Asset / Liabilities view has the conceptual primacy…because a liability is defined as an obligation to sacrifice assets…'Asset' is an absolute core for the conceptual framework."

IASB member (5):

"[We deduced from the first round of interviews with IASB Board members that: In respect of the five basic elements of accounting (assets, expenses, liabilities, income and capital), primacy is given to the definition of an asset. What is your view on this deduction?] That's absolutely true. Asset primacy is the whole basis of our conceptual framework. I don't know how much the others talked to you about that, but, if you think about it, you can't start any place else. You can't have any of the other elements. You can't define them without making some reference to assets, so assets must have conceptual primacy. That bothers some people."

UK ASB member:

"[The definition is the conceptual primacy: as you told me, it's the start point. It's not the primacy for the priority]. It doesn't dominate. [It's just to be the starting point]. Yes. I think some people think of it as more than that, though. They tend to think that the asset definition has to dominate everything else. I'd say, if I then think about liabilities and think about equity, and I find the definitions of those two don't mesh with assets, I'd want to revisit my asset definition to make sure that I have got it right. I'd think 'Why don't I naturally get that consistency."

<u>One dissenting view gives primacy to "transactions" and "matching".</u>

AcSB member (2) :

"Even though historical cost, yes, you do go to revenues and expenses before you go to assets and liabilities, because they're residual, but the fundamental building block that I have to build it would be the transaction. It's the economic transaction….Even though historical cost, yes, you do go to revenues and expenses before you go to assets and liabilities, because they're residual, but the fundamental building block that I have to build it would be the transaction. It's the economic transaction. Then the question is, under historical cost, if you have a fundamental transaction, you have some debits and credits, and then you have some rules about where they go. Ultimately, the way they go is you have revenue recognition, followed by matching what drives your expenses, and then the assets and liabilities are residuals. The fundamental building block is to identify an economic transaction. While I'm happy about the assets and liability view……. Nobody has ever shown that following these assets and liability rules get the best information for investors, but that's where it starts. It's all about information."

All other elements in the conceptual framework are defined in relation to the definition of an asset. A liability is defined as a negative asset. Expense and income are defined in terms of changes in assets and liabilities. And Capital is the residual assets after liabilities are covered.

Accounting expert (4):

Once you decide what an asset is, and you recognise it in the accounts, you then get a balance sheet approach to income measurement, and a change in an asset will give you a gain or a loss, and then you would categorise that gain as either being capital in nature, or revenue in nature, and allocate it to a section on the income statement, either profit and loss, or to total gains, or to reserves. I think it's a good place to start. You then define a liability as a negative asset, and expense and income become changes in assets and liabilities. Because we live in a capitalist society, capital becomes a residual after the liabilities of a business have been covered. I'm quite happy from my own personal, political perspective, to have capital as a residual. In some command economies you would have a different accounting equation. You would have assets equal claims on assets. But we live in a capitalist economy, and, as a result, I'm quite happy for capital to have the risk and the return. I'm quite happy for capital not to have a definition, and to be defined as a residual after assets and liabilities have been mashed. I agree with the [this] deduction.

IASB research fellow:

I think that's right. I think it's unavoidable, actually, you know. The way the framework is set up, once you've defined an asset, a liability is defined as the opposite. Then equity or capital is defined as the difference. Income is defined as a positive change in capital and expense is defined as a negative change in capital. Everything follows from the definition of an asset, and that gives its primacy. I suppose, in principle, you could define a liability, and then an asset is the opposite. Net assets are… It's difficult to think of another way of doing it. [From the literature, there are some people who are in favour of using revenue expense view to be the conceptual primacy] The problem with that is that nobody has been able to articulate what that means. I think you can define what an asset is, and I think the framework does a decent job of doing that. You can define revenue as a change in an asset. If you try and define revenue directly, I don't know how you do that. I don't know how you do it from the asset base, either, because the revenue recognition project is problematic.

4.2.2 Economic resources in respect of asset - based recognition process

In asking the interviewees the question

In the definition of an asset the term 'economic resource' is typically expressed in terms of access to future cash flows. Do you have any view on the assertion that the nature of that 'economic resource' should be recognised first and, if so, do you see any linkage to the issue of 'rights'…..

……the following categories arose:

4.2.2.1 Economic Resource

The interviewees confirmed the following:

<u>"Economic resource" is part of the asset definition</u>

IASB member (1) :

"future economic benefits' is there (proposed asset definition) because it would not be a resource if it did not have economic benefits……… [So do you think that any economic resource can meet the definition and it could not be measured?] I do not know what it is. But I have to accept that that's possible".

IASB member (5):

I lapse back and forth between the FASB definition I grew up with and our [IASB] definition <u>'economic resource'</u> – what the FASB calls probably future benefit.

Accounting expert (3)

I think what is an economic resource? That is a dimension of the asset definition. If you have an economic resource then you have the right to the underlying capital. You have the right to future income from that resource……. If I have any asset, there are future cash flows involved.

<u>An economic resource must generate future economic benefits to be an asset.</u>

IASB member (2)

Any type of right that you have, that the entity has, that is the economic resource. So, it has to be a 'right' that will generate economic benefits.

IASB member (4)

[For an 'economic resource' do you mean by it that it should have a value?] It has a capacity to generate a value greater than zero probability of generating positive cash flows.

Accounting expert (4)

I would see an economic resource as linking to future cash flows. I definitely think that.

<u>The economic resource exists today (at the balance sheet date) to generate future economic benefits (future probable income). The phrase to 'generate future economic benefits' is what distinguishes an asset from an expense.</u>

IASB research fellow

Well, present economic resource is clearly an asset. The issue about present, as opposed to future, is not to do with asset or expense. That's just to do with one type of asset rather than another. 'To which the entity presently has an enforceable right for others to have access to.' Well, that's about whether the entity can claim ownership or not. If it's an asset they can't claim ownership to… If it has spent some money on something, and it can't claim ownership to whatever it has spent the money on, then it's no longer an asset. That seems reasonable. It looks alright to me. [If you want to say that you have an asset and you have the right to this asset, what type of right do you have? Do you have the 'right' to use this asset? Do you have the right to this asset? If I have the right to this table, I have the right to use, to manage, to…] If you think about spending on advertising, you could say it is a present economic resource because I expect to get benefit from having spent money on advertising. I expect my future sales to be increased. In principle, there is a realisable value from that. If I want to sell my business to somebody else, it's worth more if I've spent more on advertising than if I've spent less on advertising. It is a current economic resource. The entity presently has an enforceable right. [So this right should be linked to some others] I don't think it has an enforceable right, does it? I don't know what that means in that context. If I spent some money on advertising, I don't know what an enforceable right would mean in that situation.

4.2.2.2 Future economic benefits

<u>An asset must generate future economic benefits.</u>

AcSB member (1) :

"As to the ability to generate future economic benefits, I think essentially we have got the way we're thinking of the asset definition built into the definition of an asset. A fundamental aspect of the definition of an asset is the ability to generate

future economic benefits. If the thing you've got does not generate future economic benefits, it is either a nothing, or a cost, it's potentially a liability. So it is there, but it should not be a separate recognition criteria. That should be in the definition."

UK ASB member:

The main purpose of the asset is to bring you benefits, isn't it? This is just saying the ways you can bring benefits.

<u>The future economic benefits associated with an asset is linked to 'rights' of the entity</u>.

UK ASB member:

Instead of listing eleven, I'd just say 'Well, the function of an asset is to bring me benefit in whatever way I can receive benefit.' [I'd like to put a link between the right and the economic resource] I see. [In the proposed definition, they deleted the word 'for future economic benefits.'] That's wrong. These are all rights to future economic benefit. You're merely listing them. The key thing is it has to be for future benefit. That's what makes it an asset. An expense is for current benefit and is written off at the end of the year. Even wages, in so far as you've paid in advance, you show it as an asset in the balance sheet. It's pre - paid, so you've got a right to benefit there. In the case of the labour force, you're not going to use them for security, transfer, and all this sort of thing. You're going to use them to work for you, so to control, to use, and to manage….. You've the right to benefit from it, basically. I don't find it particularly helpful to go into that detail, you see, because we know an asset brings us benefit in whatever way suits us in our business.

IASB member (5)

The right to income, you're running into the problem that Aristotle would have called circular definition. You're using, in your definition, terms that rely on your definition. Since income depends on what you define as assets, you can't use income in the definition of an asset. It has to be this notion of future economic benefits. [So we can change it: instead of 'Right to income,' 'Right to future economic benefit.'] If you have control, you have right. I think it's control, which means it's mine, and it's economic benefits, and in the old definition it's the fact that whatever happened to give me that has happened. It's not dependant on something else in the future. As I say, most of these are characteristics, or functions…[Features, for example]. Or features, but they're not necessary to the definition of the thing. [Or even the link between the right and the economic resource, you don't think this can be the link between both]. They have to both be there. [These eleven functions or whatever functions you think that… May be the link between the right and the economic resource]. In other words, what is an economic resource? Those are all… Most of those are characteristics of an economic resource, and the control is the fact that it's mine: I have the right to it. That's why I think we need control in the definition.

4.2.2.3 Probable benefits

The interviewees confirmed the following:

<u>The future economic benefits from an asset are “expected” or “probable” ones.</u>

AcSB member (2)

[This means you agree with asset to be probabilistic?] For example, if you were to do a workforce and have human capital as an asset, unequivocally, human capital can add value to an organisation. In fact a large part of the value of an organisation, in the way the market would price it, would be human capital. Could we say something about the workforce and say that yes! it is an asset. I’d say yes. As long as there is something that binded that workforce, not as each individual but as a collective, and we can make some probabilistic statements about it, as long as I’ve bonded it to my organisation… For example, if they work together like…[a famous company], had some common knowledges and processes, then they have values as a workforce. As long as I have intelligent enough compensation policies, then I think I would have an intangible on workforce. It could be just that I live in a town that’s isolated, and people like living there and raising their families. That would still bind them to me. I would still reap the benefit of it. My organisation would be worth more because of it. Do we want to report on that? I would say it meets the definitions of nominal versus measurable. I don’t think I would agree that you have to have this really secure notion. I think, in the end, I am a bit interested in understanding and conveying information. I think intangibles can raise information to a significant degree.

IASB member (1)

“the word ‘probable’ (that is in the FASB’s) and ‘expected’ (that’s in the IASB’s) are both phrases that don’t mean what the English language use of the word means. That has been problematic. So, if we do nothing else with the asset definition but find the way of expressing a different way from using word probable, or expected , and quit using the word control, we make improvements”.

4.2.2.4 Scarcity

The interviewees confirmed the following:

<u>An economic resource is typically scarce in nature.</u>

UK ASB member

“There are benefits like the ability to breathe air, which are actually valuable. It’s undoubtedly an asset. If somebody took the air away, you’d really regret it and

want it back, but it doesn't cost you anything. That is a valuable benefit, but it's not a legal right because you don't have the right to stop other people from breathing it. It's just there's enough of it around and we can all breathe. I wouldn't put the air in the balance sheet because it's not a scarce thing. If it's scarce, other people will want it. Therefore, I've somehow got to have the ability to benefit from it myself, whilst stopping other people from taking it away from me, like my customers or the formula for coca cola. To that extent, there must be... That's more like control to me than a right".

4.2.2.5 Uncertainties

The interviewees confirmed the following:

<u>There is uncertainty in the receipt of future economic benefits.</u>

IASB member (4)*:*

.......“basically, the uncertainty that surrounds the cash flows that may be generated in the future. The uncertainties... Part of the recognition criteria that's in the framework are dealing with these uncertainties. It seems more likely that cash flows would be generated in the future. This is the thinking: we only want to put assets on the balance sheet if we think it's pretty sure that cash is going to be generated in the future. This is dealing with that conservatism I was talking about before. I think we had passed this now. So we say it is an economic resource. Nothing certain in this world, so there's uncertainty about the amount of cash flow that would be generated in the future and the timing of those cash flows. So what we need is a measurement approach which deals with uncertainty. That's why I have been a fair value proponent.

IASB member (5)

If you look at assets ... it only allows you to recognise those if they are virtually certain. That's a good example of a standard that has a conservatism bias. It's a wrong answer. You ought to have the same answer for assets with uncertain settlement, as you do with liabilities that have uncertain payout.

4.2.3 Rights

In asking the interviewees the questions

(A) Do you have any views on the assertion that, in general, a business cannot use an asset unless it has a ‘right'; legal or otherwise, to do so?

Whilst there are clearly ‘rights' attached to the recognition of an asset, for example, ownership rights, can you think of any ‘rights' attached to the measurement of assets?

Please look at card 2, which lists some functions of an asset. In what way, if at all, do you think that should functionality be part of the asset recognition process?

(B) What is your view on the assertion that the recognition of assets is predominantly about the recognition of 'rights', legally enforceable or otherwise?
In the definition of an asset the term 'economic resource' is typically expressed in terms of access to future cash flows. Do you have any view on the assertion that the nature of that 'economic resource' should recognised first and, if so, do you see any linkage to the issue of 'rights'?

…the following categories arose:

4.2.3.1 Legality and control

The interviewees confirmed the following:

'Rights' are a part of asset recognition and not asset measurement.

AcSB member (1)

I am not sure that I can see 'right' and measurement as being linked to each other. I see 'right' at the existing level again. I see it as a part of recognition that the 'right' are what links the good things, the beneficial thing to the entity, so I do not really see that as a part of measurement. [If we link the features proposed by Honore (1961) with those rights: for example right to control, right to use, right to manage, and so on, are these considered to be assets?]Yes. Those are the kind of 'rights' we were talking about. Those for me are all dealing with the asset itself and the recognition and they are not dealing with measurement".

'Rights' should not be restricted to legal rights.

AcSB member (1) :

"[Do you have any views on the assertion that, in general, a business cannot use an asset unless it has a 'right': legal or otherwise to do so? Also, whilst there are clearly 'rights' attached to the recognition of an asset, for example, ownership rights, can you think of any 'rights' attached to the measurement of assets?] I agree entirely with that. That's hitting right on what we are developing with the new definition of an asset – the fact that the entity has to have a link to it, we focus in on it being a right, and the fact that it is legal right or not is very important. We had a lot of discussions about whether to restrict it only to legal rights. We're not restricting it to that. There can be instances where you have assets that are not a legal right."

AcSB member (2) :

[Do you have any views on the assertion that in general a business cannot use an asset unless it has rights – legal or otherwise to do so?]I definitely think it should be something more than legal. I think the example I gave you about a workforce… It doesn't even have to be a right. As long as there's something that binds it to me,

I think I'd be willing to think about something being an asset. [It doesn't have to be a right] It doesn't have to necessarily be a right. I think that's where you can speak probabilistically a bit. [I don't mean 'right' by the legal form. 'Right' means that access to the right to use, right to have this asset. I don't mean it's a legal form. I don't mean it should be associated with a legal or contractual form. I mean an access to] If we take a very broad view of rights then that's fine. The question is if we're going to use a term in a conceptual framework or otherwise then it's pretty vague. The conceptual framework ought to have language that tries to put out a clear barrier around what the right is. If all we say is legal or otherwise then people are going to wander around saying 'well, it must be something very much like a legal thing.' I kind of envisage some assets that are not very much like legal. Unless we can clutch out the otherwise, I probably would be careful of the use of the word 'right.' In other words, if the word 'right' comes with clear legal connotations in most people's minds then I'd back off using the word 'right,' because I think the CF should be written in a way that people can understand it. I think that's one of the things that I dislike about accounting documents. You'll regularly see them use a term that has a totally different meaning in day to day living. It isn't defined, so how can it possibly be a useful communication? It has a meaning other than what you would expect, and I'm using it in a way that I know. I don't define it anywhere, so how can I communicate to you? I would be really careful of the word 'right.' I think they need something other than saying 'or otherwise' if they're going to write a proper CF.

<u>'Rights' may be a substitute for 'control'.</u>

IASB member (1)

[Do you have any views on the assertion that, in general, a business cannot use an asset unless it has a 'right': legal or otherwise to do so? Also, whilst there are clearly 'rights' attached to the recognition of an asset, for example, ownership rights, can you think of any 'rights' attached to the measurement of assets?] Yes, whether it is control or control to others' access. I do not think that this is as important as people think it is. The functionality will be part of an asset."

IASB member (5)

I think from your views, the word control is very essential to an asset. Why did you delete it from the proposed conceptual framework? I would not have. But tragically, I don't get to vote. I think we're going to wind up omitting the word and then trying to do exactly the same thing that it does. The tension around control is whether it means control in my ability to deny others access, or whether control means my ability… the fact that, if benefits flow, they will flow to me. Does it mean my ability to force someone to do something? We could have, and I think we will wind up… We will take out the word control and then we'll come up with words that do exactly the same thing, because the notion is the economic benefit is mine. I'm going to use the word control: you're going to have to use something else.

‘Rights’ should be enforceable.

IASB member (2) :

Legal rights are enforceable, that’s why the word enforceable …all the ‘rights’. Generally, the rights that give you access to benefits: that you can easily limit others’ access, or you have rights to, are enforceable. If they were not enforceable you really don’t have anything……………………Lots of different types of rights are enforceable. Enforceability is really a way, a signal that says that you have an access to and other people do not…… We are just trying to say what we meant by present rights, what kind of a right”….. Somehow you are gonna have to figure out what your right is…what asset you have control over…whatever words we use…present rights to what?............... So, if I can figure out how it is an asset by control.

UK ASB member

Legally… A right that’s not legally enforceable, in some senses, isn’t a right. There has been a lot of discussion on the board about whether it should be just legal. I don’t think it should be legal. It’s more difficult with assets than it is with obligation. It’s easy to think of obligations that are maybe legally enforceable, and may not be, but they’re created by custom and habit. [IASB member (5) told me there was a discussion about when they were putting the definition because some of them disagreed they can delete the word ‘control’ from the definition, and some agreed they need it, and so in order to trade off the word they put the word ‘Rights or other access’] I don’t think the rights ‘control’ the asset much more.

IASB research fellow.

‘To which the entity presently has an enforceable right for others to have access to.’ Well, that’s about whether the entity can claim ownership or not. If it’s an asset they can’t claim ownership to… If it has spent some money on something, and it can’t claim ownership to whatever it has spent the money on, then it’s no longer an asset. That seems reasonable. It looks alright to me.

Accounting expert (3)

I have sympathy for that. I have sympathy for the ‘right’ concept, but the fact that one expands it to include enforceable: legally enforceable and other kinds of rights makes it more vague. If you take away all the other recognition criteria and say that everything that includes a right, whether it’s enforceable or not, is an asset. The only recognition criteria we have are not sufficient. It’s not going to help us. I think… I agree with the concept of a right, but it’s not clear to me what it really means. If I cannot enforce a right, how can I say it’s an asset? I’m not concerned about the ‘right’ part of it: I’m concerned about it not having to be enforceable. I think an asset is a right to receive something. For something to have anything to do with an asset, it has to be an economic resource. To me, there is a link between the right and economic resource. The link is the right gives me access to that economic resource.

4.2.3.2 Preventing access by other entities

When the entity has the right to an economic resource, it should be able to prevent others from having access to this resource.

UK ASB member

"There are benefits like the ability to breathe air, which are actually valuable. It's undoubtedly an asset. If somebody took the air away, you'd really regret it and want it back, but it doesn't cost you anything. That is a valuable benefit, but it's not a legal right because you don't have the right to stop other people from breathing it. It's just there's enough of it around and we can all breathe. I wouldn't put the air in the balance sheet because it's not a scarce thing. If it's scarce, other people will want it. Therefore, I've somehow got to have the ability to benefit from it myself, whilst stopping other people from taking it away from me, like my customers or the formula for coca cola. To that extent, there must be… That's more like control to me than a right".

IASB member (2)

Any type of right. Any type of right that you have, that the entity has, that is the economic resource. So, it has to be a 'right' that will generate economic benefits…. [Therefore, the right here is a contractual right: this means that there are different types of rights?]Yes. What other? Legal rights are enforceable, that's why the word enforceable ...all the 'rights'. Generally, the rights that give you access to benefits: that you can easily limit others' access, or you have rights to, are enforceable. If they were not enforceable you really don't have anything. If I have the right to this table, whether I am leasing it or I own it…whatever my right is I have the right to the use of this table. If I cannot enforce my right…so you can come in and use it...if I cannot stop you from using it because I have no enforceable right to this table or my 'right' to this table is not enforceable, then I do not really have an asset because anyone can come and use it and I can not stop them. Lots of different types of rights are enforceable. Enforceability is really a way, a signal that says that you have an access to and other people do not… We are just trying to say what we meant by present rights, what kind of a right"... Somehow you are gonna have to figure out what your right is…what asset you have control over…whatever words we use…present rights to what?.... So, if I can figure out how it is an asset by control.

IASB member (5)

I think from your views, the word control is very essential to an asset. [Why did you delete it from the proposed conceptual framework?] I would not have. But tragically, I don't get to vote. I think we're going to wind up omitting the word and then trying to do exactly the same thing that it does. The tension around 'control' is whether it means control in my ability to deny others access, or whether control means my ability… the fact that, if benefits flow, they will flow to me. Does it mean my ability to force someone to do something? We could have, *and I think we will wind up… We will take out the word control and then we'll come up with words that do exactly the same thing because the notion is that the economic benefit is mine. I'm going to use the word control, you're going to have to use something else.*

Preventing others from gaining access may be exercised physically as well as legally.

IASB member (4)

"All those things. When you say …..it gets a bit tricky….. If Coca - Cola, as you say it as an example, it has a formula that is hidden. Nobody knows what it is. That gives it its value. No one knows what this formula is. Now is it a legal right? No. It has not been patented. The name has but not the process. They have the ability to control or to access the benefits by keeping that formula secret. It is not a legal right…[That's why you would like to add the ability to control, ability to manage, ability to use…] It is the evidence that you have the 'right'. The 'right' may be created through a contract. The 'right' may be created through a contract. The 'right' may be created through preventing others to access to your assets.

4.2.3.3 Legal vs. non - legal rights

'Rights' should not only be restricted only to legal rights, but all types of rights.

IASB member (2)

Any type of right. Any type of right that you have, that the entity has, that is the economic resource. So, it has to be a 'right' that will generate economic benefits.

IASB member (4)

"All those things. When you say …..it gets a bit tricky….. If Coca - Cola, as you say it as an example, it has a formula that is hidden. Nobody knows what it is. That gives it its value. No one knows what this formula is: now is it a legal right? No. It has not been patented. The name has, but not the process. They have the ability to control or to access the benefits by keeping that formula secret. It is not legal right…[That's why you would like to add the ability to control, ability to manage, ability to use…] It is the evidence that you have the 'right'. The 'right' may be created through a contract. The 'right' may be created through a contract. The 'right' may be created through avoiding others to access to your assets.

Accounting expert (4)

"It's not predominantly, but that's one of the threshold criteria, isn't it? It's our asset: it's not somebody else's asset. We don't put other people's assets on our balance sheet: we only put ours on the balance sheet. That's a legal question I would agree with. That would be part of your pre - measurement test that you were talking about earlier. It would be a legal test".

4.2.3.4 To control, to use, to manage, to capital, to income, to security, to transfer (Disposal), to time horizons (life of an asset), to prohibition to harmful use, to execute liabilities, to a residuary character

The interviewees confirmed the following:

<u>On balance they supported the identification of specific rights but were unsure as to which ones were relevant (including any ranking thereof) with the exception of a right to control.</u>

IASB research fellow

Control is enforceable right, in fact, and excluding access. I'm not sure why use is relevant. Manageable… [If I have an asset, it should be managed, so I can manage it?] But presumably it isn't a present economic resource if you can't.

IASB member (1)

"I do not think that these functions are distinctive [the 11 functions]. In other words, if I control it, I can sell it, I can use it…".

AcSB member (2)

Again in this list, you jumped to see whether they are necessary or sufficient as some are necessary and some are sufficient: ability to transfer and residuary character would be a sufficient…[What about right to income and right to capital..] They are on an individual basis necessarily [Control?] In a broad sense, it is necessarily [Use and manage?] Necessarily if we use the notion of control, then the other three terminologies will come below.

IASB member (2)

[These functions were introduced by Honoré (1961) – card 2]. "That's fine. "[Can these functions be used as characteristics of an asset?] "I guess so."…all 11 functions, you agree…]. "Possibly yes".

Accounting expert (4)

The eleven functions are good. It's a question of whether an asset has to meet all eleven, or maybe one, or seven, before it's recognized. That's the issue. I can imagine some might meet six and not the other three. [Then it would be the ranking]. Yes, some primacy of the core ones.

IASB member (4):

[We put these characteristics – referring to card 2 – as links between the definition and measurement]. "Yes, it is, in a sense, explaining the 'right or other access'. [Do you think that one asset has to have all these links, or maybe one or

two?] No, not all of them, because there may be certain restrictions on you that can be imposed by contract, legislation, or by statute. It may limit your ability to use an asset in a certain way: it does not mean that you do not have this asset. For example, there may be a restriction on you to be able to sell it to a third party, but this does not mean that it is not an asset because it still has the capacity to generate cash flows through use. This means that it is your asset. So limitation on your ability does not mean that you do not have an asset, but the most important thing is you have the ability to deny others to have an access to that asset. So you can sell it, you can use it, and you can deny others from using it. [So you want to put and / or between each one of these]. Yes. You can say right, but it's more ability. I think a 'right' is trying to capture everything like a generic term. Right and other access means it is yours. What evidence do I have that 'Right' exists that gives me this economic resource? So the evidence is, because of the 'Right,' I can sell it, I can use it, I can pledge, use it as a security, and so on, so it is an evidence if you like".

4.2.3.5 Entity power

The interviewees confirmed the following:

<u>The entity can exert power over people but it cannot own them. People cannot be assets in the balance sheet.</u>

IASB member (5) gave:

"The tension around control is whether it means control in my ability to deny others access, or whether control means my ability… the fact that, if benefits flow, they will flow to me. Does it mean <u>my ability to force</u> someone to do something? We could have, and I think we will wind up… We will take out the word control and then we'll come up with words that do exactly the same thing, because the notion is the economic benefit is mine. I'm going to use the word control; you're going to have to use something else".

UK ASB member:

"*They're still 'rights,' or <u>'powers'</u> left at balance sheet date. They are undefined. It's like our direction of labour, you see. In the case of labour, you have no rights over your workers beyond what you've paid them to do. They don't owe you anything at balance sheet date, so there is no asset there.... In the case of the machine, because you've paid for its use over a lifetime, you've still got some unexpired life in it at the end of the year, so, to the extent that it's un - expired, it's an asset. To the extent that it has expired, it's depreciation expense".*

Accounting expert (4):

"we don't have slavery and we don't own these people. They can leave if they want. It's not reliable to put them in the balance sheet because the asset may not last for the next".

4.2.3.6 Voluntary vs. non - voluntary

The interviewee confirmed the following:

Even if footballers are sold and bought by other clubs, but still we cannot own them. Control is exercised over objects, rather than people. The exercise of power involves voluntary compliance

Accounting expert (4):

"There's human asset accounting which has been developed to try and value the workforce. It can be done, but it doesn't get into the balance sheet because we don't have slavery and we don't own these people. They can leave if they want. It's not reliable to put them in the balance sheet because the asset may not last for the next… You do see it in football club accounts. If you look at the accounts for Manchester United, the players that they've purchased, the costs for their contracts in the balance sheet. They depreciate or amortise footballers contracts in line with FIFA guidance about age of players at the end of their contracts. Human resource accounting can occur with golden hellos you get from CEOs and in particular instances like football clubs, but not in the vast majority of companies where you have a workforce".

4.2.4 Market - specific vs. entity specific event

In asking the interviewees the question

Please look at card 1, which defines what is meant by 'market-specific' and 'entity - specific' events. In comparison with market specific events, what is your view on the assertion that the accounting recognition of an asset is an entity - specific event?

….the following categories arose:

4.2.4.1 Entity specific

The interviewees confirm the following:

The asset recognition process is an entity specific event.

IASB member (2)

[Entity specific event]: "…these are the rights that the entity has otherwise it is not the entity's asset…Now to recognise it in the financial statements what number do I use?…You are looking to the market to figure how to measure it? So what is the right to income worth?" [Market specific event].

AcSB member (1)

"Accounting recognition of an asset is clearly an entity - specific event because the entity only can have an asset …" [I would like to know if we need asset recognition criteria. Should they be from an entity point of view or a market point of view?] "…We say for certain things we think there is a market and they're suitable to recognize. If you look at IAS 38 for intangible assets, you can see things like brands and the like that they say no we would not allow to recognize because there is no enough market specific measurement. So the entity can calculate…[So, mainly entity - specific but we can depend on the market specific event?] "In terms of the measure itself, and the decision as to whether by that recognition criteria, that should be market relevant decision. The entity specific is more it has got to be the entity's assets." [Asset recognition?].

IASB member (4)

"It is an entity perspective …So it is what does this entity control? As a result of its interaction with the outside world, have we interacted with the outside world through a transaction, which gives us the 'right' to benefit, so we've exchanged something with an outside party and he gives us the 'right' to benefit. Have we undertaken some action internally, which is creating something of value and economic resource, which I may use in a relationship with the outside to generate future cash flows…[But most fair value proponents say we have to go to the market and evaluate assets]. It is a difficult question because… it is not necessary for this particular thing…to be capable of being exchanged with an external party for it to be an asset…as long as it is able to generate future cash flows…Fair value can give you the best, most faithful representation of that asset because even though this thing that the entity has a right to could not be exchanged with an external party…you can still measure that asset on a fair value basis by saying: if I could exchange it, if I could, what would a market participant pay me for that asset given its existing location and condition. So, yes, I think that the market perspective is important in determining whether or not you have something of value…If I couldn't do that because there is no market for this – it's a unique asset or whatever – I could still estimate a value by looking at what a market participant would pay were it were a transferable item".

IASB member (1)

"First place I think this confuses two things. The first question is: is it my asset or isn't it my asset? If it isn't mine, whose is it? This then brings the measurement into it. You want to measure it differently because you want characteristics of me

owning it versus somebody else owning it. That's not an asset issue. It's not whether it's my asset issue, its how I'm going to choose to measure my asset…"

4.2.4.2 Market specific

The interviewees confirm the following:

<u>Even though asset measurement is linked to asset recognition (an entity specific event), the measurement should be based on the market place (a market specific event).</u>

AcSB member (1)

"Let us say reliable measurement, the question would be can the entity reliably measure it, or can it reliably measured it in the market? There I would very clearly say it's a question of the market. Is it capable to be reliably measurable? So it depends on the entity. Just because the entity says I do not have the expertise…[This means that the entity can depend on the market]. It should be linked to the ability of the market. We see that in the way, I guess, we wrote the accounting standards. We make a judgment. We say for certain things we think there is a market and they're suitable to recognize. If you look at IAS 38 for intangible assets, you can see things like brands and the like that they say no we would not allow to recognize because there is no enough market specific measurement. So the entity can calculate, so that's not good enough. I'm in the market specific camp."

IASB member (3)

"…in many cases most of our constituents use an entity amount rather than market - amounts. It really depends on what you want to show. The value of a building that is being used should reflect a market - based value."

IASB member (2)

…Now to recognise it in the financial statements what number do I use?…You want to know how the market figures it".

IASB member (1)

"The marketplace trades these things for a thousand every day, and we can observe that. We get over here, and it happens to be mine. This says that I want to measure it as $ 1100 because when I use it, I use it better than you do. That's not an asset issue. That's a measurement issue."

IASB member (4)

So, yes, I think that the market perspective is important in determining whether or not you have something of value…If I couldn't do that because there is no market *for this – it's a unique asset or whatever – I could still estimate a value by looking at what a market participant would pay if it were a transferable item".*

Not all intangible assets that have a market value are recognised in the financial statements.

UK ASB member

We don't stick them in the accounts [intangible assets] because we think there are some things that, because of the uncertainty surrounding them, whether they exist, because of the difficulty of measuring them, for those sorts of reasons we don't think they're precise or reliable enough to put in the accounts. Intangible assets that are internally generated typically fall into that category, some that do have a market value and we do not include in the accounts. All sorts of intangible assets exist.

4.2.5 Separable asset - based recognition

In asking the interviewees the question :

Please look at card 3, which defines what is meant by a "separable" asset, commonly referred to as separability. Please give your views on the role of separability in the accounting asset recognition process?

Napier and Power (1992) introduce the term "***Measurement Separability***", which collapses the three stages - identification, recognition and measurement - into one stage on the basis that if one can measure an asset, de facto, one has simultaneously identified and recognised it. In what way would you agree or disagree with this term?

What is your view on the necessity, or otherwise, of separately recognising and separately measuring an asset rather than as a bundle of assets…

……….the following categories arose:

4.2.5.1 Separability as an implementing device

The interviewees confirmed the following:

Separability is an implementing device in the asset-based recognition process.

IASB member (4)

"Separation, separability is not an essential characteristic…No, it doesn't have to be but if it is separable and someone will pay a price for it, then its evidence that you have an asset. If it is not separable, you still have an asset as long as it is an economic resource."

IASB member (5)

[As a general rule, which would be a sub - set of which? Control is a sub - set of separability, or separability is a sub - set of control?] I can certainly have control over things that aren't separable. I can certainly have control over things that are legal right. I would refer to separability and legal contract as implementing devices, or implementing conventions that we use to apply the notion of control. [This means that the notion of control is a set from which separability and legal rights are subsets]. Almost everything that we recognise in financial statements has the feature of separability or legal rights, but I don't think… I think that's an implementing convention rather than a fundamental principle…… I think you can make an account a lot harder than it needs to be. It gets confused with a lot of other issues. [But intangibles are very important]. They're absolutely critical for intangibles. What happens is we always recognise a unit of account…. The thing I think is key, and is especially important for your analysis, I think you have to answer unit of account before you answer definition. [Whether you are going to define the item as an asset, or…]You have to describe what it is you're applying the definition to. [What's your item.] Before you can apply the definition…[I would just like to put features for this phase, like the features for the measurable asset. When an asset is measurable, it should satisfy the following features. These features, I'm just putting them in the form of questions because I just deduce them, or induce them from the literature. For example, satisfying whether we can avoid asset bundles, or we don't avoid them]. We don't avoid them. We always do it. Sometimes we pretend that we're not. We say that a bus is not a bundle of assets. Of course it's a bundle of assets. It's just that it's more relevant and precision useful to describe it as a bus…. [So you don't agree with 'avoid asset bundles.'] No. I don't think that's an initial recognition issue.

UK ASB member

The appropriate question is how big should the bundles be? Should I bundle the car parts into a car, should I bundle the car into a fleet of cars… That depends on the sort of business, how big it is, whether it operates on a fleet basis or an individual car basis, whether it's a car business or a car spares business, you know, all those things will determine the level of aggregations. I think all assets are aggregations, to some extent. What I don't like the idea of, which I think is an idea behind fair value, is the idea the accounts should value the business as a whole. I don't think the accounts are for that. My measurement objective would be to value parts of the business, show what assets the business has, but at the end of that there would be a gap. The gap would be the goodwill of the business. I don't think the accountant's job is to value goodwill in the purest sense. That's the job of the investor and the analyst. They reach their subjective evaluation of future cash flows, including all the things I haven't recognised and all the things that haven't happened yet. If I'm valuing an oil company now, I'd probably disagree with you because you have a different view of the way the oil market is going to go in the future. Those are legitimate differences that analysts and investors can have, but aren't appropriate for appearing in the accounts. We don't want auditors signing off on these differences of opinion. They're not reliable. They're subjective. They shouldn't be recognised.

4.2.5.2 Unit - of - account

The interviewees confirmed the following:

A unit of account that the business chooses to recognise as constituting an asset for disclosure purposes.

Accounting expert (3)

[The separability concept depends on the type of industry and the type of activity you are holding?]. Absolutely. The whole point is that if you can separate something…Of course, you could say that could take out the seats, but it makes no sense. The most economic way to transfer the assets is by selling the coach, as such. You don't take out the parts. If it makes sense to sell the bus in parts, I would separate the parts. [If you are working in a garage, a repair industry, we can sell the seats separately]. I'm saying you have to look at each part of any asset and determine whether it makes economic sense to separate it. If it makes sense to separate it then you do that, but you have to keep in mind the whole underlying idea is it's a going concern. Even if it makes sense to sell the seat separately, as long as my whole business relies on having these buses available, I wouldn't sell the seats. Maybe it makes no sense to separate them for valuation purposes. [So you agree with the concept of separability within the circumstances of activity]. Yes.

The unit - of - account conditions (pre - measurement), how one recognises assets according to the level of aggregation at which one wishes to account.

AcSB member (2)

[This means separability should be potentially a criterion for recognition]. I think separability is useful. It kind of goes to unit of account. It might be that we could separate them in different ways, but it ought to be separable in something that you can actually attribute a value – an identity and a value. [What comes first, identify or to separate?] Identify first. [This means that the criteria should be separability, or identifiability, or identifiability could go under the asset definition]. I don't have a really solid answer, but I think identifiability is different to separability, and I think it comes first. I don't have something more intelligent to say at this time.

IASB member (1)

"I have been on both sides of the question as to whether they have to be separable or not. I don't think the answer can be yes…Let's assume that I've got four things and I use them as a unit. Maybe I could sell three of them separately, but I can't sell the one. I don't know whether it's important? Maybe it's just labelling. If I

label this as four assets do I get a different answer? If I label it asset one, two, three and four? I don't know whether this is all just a unit - of - account measurement issue, or whether it is definitional and recognition - based?"

IASB member (3)

"There are some who say that grouping…assets will give the same value as recognising them individually. Regardless, if it gives you a different value, some companies say that I can manage these assets on a portfolio basis…If you say you want a market - based amount you have to ignore the entity specific intent."

IASB member (5)

The thing I think is key, and is especially important for your analysis, I think you have to answer unit of account before you answer definition. [Whether you are going to define the item as an asset, or…] You have to describe what it is you're applying the definition to. [What's your item.] Before you can apply the definition.

UK ASB member

[Separabilty here is an important criterion for measurement]. It is. It has to be separable, but you understand that it would be possible, if you measure at the fleet level, to measure at the individual level. In that case, if the way the entity does business suggests that you measure at a higher level, you can. My lower limit would be that it has got to be separable as a minimum requirement. I would aggregate, but I wouldn't aggregate to the level of the whole business, unless I was selling the business. It wouldn't be a going concern. I'd be saying the value of this business is what I can sell it for.

4.2.5.3 Aggregation / disaggregation

The interviewees confirm the following:

<u>The level of aggregation is dependent on the type of business and type of activity.</u>

UK ASB member

[What's your view on the necessity, or otherwise, of separately recognising, or separately measuring an asset rather than a bundle of assets?] All assets are bundles. The question is to assess at what level we aggregate. Do we do it at the machine level? A spare parts dealer would do it at the parts level. Some people would do it at the machine level. Some people would do it at the factory level. If you've a lot of machines installed in a factory, you'd normally regard that plant as being what you'd sell. You wouldn't pull out the machines that are installed………. [Existence here, when an asset exists, should this asset be separable?] That's a very interesting question because if it isn't separable, when I come to measure it, it will be included in the total anyway. The issue then is at

what level. I noticed there you said at what level of aggregation, should you operate? I'd say any level below the total business, as long as it's a meaningful level. By a meaningful level, I mean one at which the business itself would exchange this asset……. [I think the word separability supports your view for the existence] Yes. [In order to exist, it should be separated]. Yes………… [Separabilty here is an important criterion for measurement]. It is. It has to be separable, but you understand that it would be possible, if you measure at the fleet level, to measure at the individual level. In that case, if the way the entity does business suggests that you measure at a higher level, you can. My lower limit would be that it has got to be separable as a minimum requirement. I would aggregate, but I wouldn't aggregate to the level of the whole business, unless I was selling the business. It wouldn't be a going concern. I'd be saying the value of this business is what I can sell it for.

Accounting expert (3)

[The separability concept depends on the type of industry and the type of activity you are holding]. Absolutely. The whole point is that if you can separate something…Of course, you could say that could take out the seats, but it makes no sense. The most economic way to transfer the assets is by selling the coach, as such. You don't take out the parts. If it makes sense to sell the bus in parts, I would separate the parts. [If you are working in a garage, a repair industry, we can sell the seats separately]. I'm saying you have to look at each part of any asset and determine whether it makes economic sense to separate it. If it makes sense to separate it then you do that, but you have to keep in mind the whole underlying idea is it's a going concern. Even if it makes sense to sell the seat separately, as long as my whole business relies on having these buses available, I wouldn't sell the seats. Maybe it makes no sense to separate them for valuation purposes. [So you agree with the concept of separability within the circumstances of activity]. Yes.

4.2.5.4 Lowest vs. highest level of aggregation

The interviewees confirm the following:

<u>A group of assets may be aggregated on its lowest or highest level based on how much decision usefulness they are.</u>

AcSB member (1) :

"*…this problem has not been resolved in the framework, as to whether we look at individual items or portfolio of items. When we look at portfolios of items, we get potentially different numbers because of values attributed to synergies, or dis - synergies going on with them. I guess my view is this may be the unit of account problem."*

UK ASB member:

"*What I'm saying is the actual unit we try to recognise will be above the level of separability…I think it's necessary that units that are aggregated must be separable, but there is a level below it that may also be separable…for a small business it might be a one bus company. That might be the level, you see. I'm saying the lower limit on the unit of measurement is going to have to be something that's separable. If you can't separate it, there's no point. It's probably impossible to measure it anyway and even if it was, there'd be no point because you'd never be dealing in that quantity. You need the whole thing."*

IASB member (1) :

"*Let's assume that I've got four things, and I use them as a unit. Maybe I could sell three of them separately, but I can't sell that one. I don't know whether it's important. Maybe it's just labeling that if I label this as four assets, do I get a different answer if I labeled it asset one, two, three, and four? I don't know whether this is all just a unit of account measurement issue, or whether it is definitional and recognition - based."*

4.2.5.5 Asset bundles

The interviewees confirm the following:

<u>'Asset bundling' is linked to the unit of account.</u>

IASB member (5)

I think you can make an account a lot harder than it needs to be. It gets confused with a lot of other issues. [But intangibles are very important]. They're absolutely critical for intangibles. What happens is we always recognise a unit of account….. The thing I think is key, and is especially important for your analysis, I think you have to answer unit of account before you answer definition. [Whether you are going to define the item as an asset, or…]You have to describe what it is you're applying the definition to. [What's your item.] Before you can apply the definition…[I would just like to put features for this phase, like the features for the measurable asset. When an asset is measurable, it should satisfy the following features. These features, I'm just putting them in the form of questions because I just deduce them, or induce them from the literature. For example, satisfying whether we can avoid asset bundles, or we don't avoid them]. We don't avoid them. We always do it. Sometimes we pretend that we're not. We say that a bus is not a bundle of assets. Of course it's a bundle of assets. It's just that it's more relevant and precision useful to describe it as a bus…. [So you don't agree with 'avoid asset bundles.'] No. I don't think that's an initial recognition issue.

UK ASB member

The appropriate question is how big should the bundles be? Should I bundle the car parts into a car, should I bundle the car into a fleet of cars… That depends on the sort of business, how big it is, whether it operates on a fleet basis or an individual car basis, whether it's a car business or a car spares business, you know, all those things will determine the level of aggregations. I think all assets are aggregations, to some extent. What I don't like the idea of, which I think is an idea behind fair value, is the idea the accounts should value the business as a whole. I don't think the accounts are for that. My measurement objective would be to value parts of the business, show what assets the business has, but at the end of that there would be a gap. The gap would be the goodwill of the business. I don't think the accountant's job is to value goodwill in the purest sense. That's the job of the investor and the analyst. They reach their subjective evaluation of future cash flows, including all the things I haven't recognised and all the things that haven't happened yet. If I'm valuing an oil company now, I'd probably disagree with you because you have a different view of the way the oil market is going to go in the future. Those are legitimate differences that analysts and investors can have, but aren't appropriate for appearing in the accounts. We don't want auditors signing off on these differences of opinion. They're not reliable. They're subjective. They shouldn't be recognised.

<u>The issue of 'asset bundles' can provide information about what is the value of the going concern.</u>

Accounting expert (3)

[What is your view on the necessity or otherwise of separately recognising and separately measuring an asset rather than a bundle of assets?] That is a question that's interesting because FASB have said you need to recognise each asset separately, and I think the answer to that question is quite complicated because the question is… You jump over FASB. The question is what is the financial report to be used to? What is the purpose of the financial report? Is the purpose to give the user some idea of what he can realise of economic values associated with each item in the financial report? In that case, I think you need to separate everything. You cannot bundle the assets. If the whole point is the going concern concept, the idea is you should give some information about what is the value of the going concern concept, I think you might be allowed to bundle assets [From your point of view, what are the users' needs in practical life?] Going concern.

<u>'Asset bundle' issue depends on how relevant and how useful the bundle provides information to users.</u>

IASB research fellow

It depends what you mean by wherever possible. I think it is preferable to value independently, but sometimes not meaningful. So it might be possible but not *meaningful. You might have two bits of equipment that form a set, and either bit independently does have a market value but it's very small, but the two bits together have a big market value, in which case, do I agree? No, because you can measure them individually. [Do I think you should measure them individually?] No. You should measure them as a bundle. [It depends on level of aggregation]. It depends on what level of aggregation provides meaningful information that's not unreliable.*

Accounting expert (4)

I would agree that assets should be measured individually. There's a concept of fundable assets, where they are identical and can be grouped together, but for certain transactions like micro heading and things like this, it's not good to bundle things together. For financial accounting, I would agree that you need to match individual transactions, not bundle them together, which has been a big debate with the banks over IAS39…[Do you agree with this assertion that we should aggregate assets based on the type of activity?] There could be some items you don't want to add together. An example of derivatives would be that I would prefer not to add them together, but you could say that a bank could add them together because they're taking a macro view of risk. I think IASB, with their non - current asset rules, separate out assets, so a roof on a building, if it's new, is depreciated differently to the walls of the building. The IASB seems to want quite a ridiculous amount of detail in terms of recognition of individual assets. With the non - current assets, you even get down to roofs and walls being depreciated differently, if you read the regulations. I think, generally, we want more accuracy, where possible. Today, with information systems, and coding things, it's quite easy to identify individual assets, I would have thought. I wouldn't agree that we need to bundle them together. I'd be more into the details on that, I think.

4.2.5.6 Measurement separability (where <u>measurement</u> of a separable asset, whether bundled or not, is the basis on which asset <u>recognition</u> simultaneously occurs)

The interviewees confirmed the following:

<u>Most of the interviewees did not understand the notion of measurement separability.</u>

IASB member (2)

If you do not recognise, you would not put it in the financial statements that what recognise means, so you cannot …. If you can measure it, you still have to put it in the financial statements. That's what 'recognise' means and just measuring it does not mean you have recognised it. [Yes, but it comes after meeting definition as you said at the beginning]. No! I am saying, the act of measuring is different from the act of putting it in the financial statements. I am not saying that there should be any more criteria but, if we can measure assets, then simultaneously we can identify it and can recognise it. It is not past tense: just measuring it doesn't mean you have already recognised it.

IASB member (4)

"I disagree, absolutely, because I think it implies that unless something is separable and, by virtue of being separable, measurable, then you do not have an asset."

IASB member (1)

"I just built this plant. I hired you guys to build me a plant. I turned the key, opened the door and it works. I paid a billion dollars for it. I guess we have measurement separability. It must be. I do because I got the plant now and I wrote you a cheque for a billion."

UK ASB member

[Napier and Power introduced the term 'measurement separability,' which collapses the three stages identification, recognition, and measurement in one stage, on the basis that if one can measure an asset, one has simultaneously identified and recognised it. In what way would you agree or disagree with this?] The statement is obviously true. The issue is in what sequence is, it sensible to do those things. If I'm doing a set of accounts for a business, do I just look into the air and say 'What can I measure?' and write it all down, or do I say 'Well, here's a business, what has the business done, what are the transactions and events I can identify, what are the consequences that I can recognise.' That seems to be a logical and practical way to proceed. If I proceed that way, I may find things that I can measure that I don't want to put in the accounts. My accounts will contain a staggering number of things if everything I can measure goes in, or think I can measure. The trouble is there's no reliability here. I've not read Napier and Power: although I know them both and they're admirable people. Identification, recognition, and measurement in one stage, if the stage is identification, recognition, measurement, in very short intervals, I'm quite happy about that. [They want to introduce the terms that what we measure is a consequence of what we recognise and what we identify]. Measurement is one of the recognition criteria at the moment. If you can't measure it reliably, you don't recognise it. It isn't true that everything you think you can measure, you'd recognise, because it may not be reliably measurable.

4.2.5.7 Capability of transference

The interviewees confirmed the following:

<u>Asset transference is linked to separability.</u>

IASB member (2) :

"I do not think it is important" [definition in card 3]. [But later on] "...separability is important because there is a notion that when you have control over something you can transfer it".

Accounting expert (4):

"I can see that we legally might own the asset and have the right to manage it, but not to have income or to be able to transfer it."

Accounting expert (3):

"*If it's possible to separate them because you can transfer one item separately from the other one then in my view it makes a lot of sense to separate them. It's not a question of whether you always have a bundle or you always separate. It's a question of circumstances."*

IASB member (4):

"*I think separability provides you with a good basis of forming a conclusion that you've got an asset. If it is separable and someone is prepared to pay a price, clearly it has got economic value*".

IASB member (1) :

"…the fact I can't separate it, meaning I can't sell it apart from anything else".

4.2.6 Asset recognition test phase

In asking the interviewees the questions

One Board member argued that ***the asset definition with qualitative characteristics [relevance, faithful representation etc] is enough***. ***I do not think we need additional separate recognition criteria***. What is your view on this assertion?

One Board member interpreted ***'neutrality' in the 'faithful representation' of accounting information as meaning that assets and liabilities should, in principle, be treated the same. Since it is incumbent upon accounting practitioners to recognise prospective liabilities then the same applies to prospective assets***. What views do you have on this assertion?

Again; ***Assets should have the same accounting treatment like that of the Liabilities.*** What do you think about this assertion particularly after deleting the 'conservatism' from the proposed framework for financial reporting.

…the following categories arose:

4.2.6.1 Pre - measurement phase

The interviewees confirmed the following:

<u>A pre - measurement phase determines whether what is recognized as an asset can be measured or not?</u>

UK ASB member

[If I'm going to have a diagram for the recognition process, from your point of view, starting with the meeting of the definition, and ending by measurement, in between there should be in intermediate phase. Can you just go to question twelve? In a pre - measurement phase, I feel it's a very important phase.] That's where recognition is important.

IASB research fellow

[If our aim is to have a recognition process, and they would like to have it in a diagram, okay, when I have an item that goes into a box which is the definition of an asset, this box, before the arrow goes into the other box, which is the measurement phase, the arrow must move along an intermediary phase, which I call a pre - measurement phase. Before we go into measurement, I don't want to know how it will be measured. Do you agree with me that we must have a pre - measurement phase?] Yes, but you can't ignore the next step because you need to know whether you can measure it.

Accounting expert (3)

[I feel that before measuring an asset, we should use the relevant base. In a pre - measurement phase, I need some criteria to be settled before I go into the measurement phase]. Yes. [You agree with this stage]. Yes. If I was on a conceptual framework… What you're talking about here is you need to determine what the objective of the financial reporting is, what the qualitative characteristics are, and so on, and so therefore I agree. There are certain issues you have to deal with before you go to measurement. [These issues will be in the recognition, since you agree we should have three separate phases in recognising an asset]. You start at the top, then you go down, then you get to recognition, and then you get to measurement. I agree with that.

Accounting expert (4)

In the pre - measurement phase…[In this phase or it is the intersecting point between the recognition and the measurement] I understand. I think that's a good phrase.

4.2.6.2 Measurable asset

The interviewees confirmed the following:

<u>A 'measurable asset' is one that is *recognisable* as being capable of measurement whereas 'asset measurement' is the act of measuring using asset measurement bases.</u>

AcSB member (1)

I guess a 'measurable asset' is the characteristic of whether the asset is capable of being measured, whereas 'asset measurement' seems to me to be the process of doing the measurement.

AcSB member (2)

Asset measurement is what value and what means you do to put a value on an asset. I guess a measurable asset is one that's capable of measurement. A measurable asset might be measurable in only one way, whereas asset measurement… I'm not sure. I just think they're mirrors.

IASB member (1)

[And we can recognize it in the financial statements if it meets the definition and the measurement]. Well, that depends on what you meant when they said measure it reliably. If assigning a number to it is a reliable measure, then…[Do you mean that recognition should be to meet the definition and to be measurable?] I do not understand what you mean by 'meets'… [To meet the definition]. It has to meet the definition, and it has to be measurable or I wouldn't know what to do with it!

IASB member (2)

If you do not recognise, you would not put it in the financial statements that is what recognise means, so you cannot …. If you can measure it, you still have to put it in the financial statements. That's what 'recognise' means and just measuring it does not mean you have recognised it. [Yes, but it comes after meeting definition as you said at the beginning]. No! I am saying, the act of measuring is different from the act of putting it in the financial statements. I am not saying that there should be any more criteria but, if we can measure assets, then simultaneously we can identify it and can recognise it. It is not past tense: just measuring it doesn't mean you have already recognised it.

4.2.6.3 Qualitative characteristics for financial information as an alternative basis substitute for asset recognition criteria

The interviewees confirmed the following:

<u>The qualitative characteristics for financial information as an alternative basis for asset recognition criteria.</u>

IASB member (2)

"…we do not need recognition criteria. Anything that meets the definition of an asset and can be measured reliably and has the qualitative characteristics that we come up with in the new framework, which is basically the same, which is called faithful representation. If it meets the definition of an asset and has all those characteristics we can measure it. Personally, I do not see why we should have another set of criteria."

AcSB member (1)

"There is a view that is held by us that there should not be recognition criteria, that is, simply if it meets the definition of an asset, then put it on the balance sheet… But personally I think you need measurement criteria …that's why we have examples where we got something that meets the definition of an asset and we do not know how to attribute a number to it".

IASB member (4)

"I think if you have a very robust definition of an asset and you are careful to identify the essential components of an asset…if you can satisfy yourself that it is an asset because it is an economic resource and you have the present right to that resource…it is not something in the future, it's now…then it exists. So, now, if it already exists, why do I need to subject it to any other consideration than measuring it?"

IASB member (1)

"The recognition criteria now don't really do anything, except give people a cop out when they don't want to recognise anything. They'll say that's not reliably measurable'. The hell it isn't. They just don't want to measure it and that's where there'll be a problem. I expect most of us are gonna say 'No, we've got an operable definition. If you meet the definition, you record the assets, recognise the asset. Now, we can argue how to measure it, what attribute to apply, but I doubt that we would agree on recognition criteria, apart from the definition, which is in both frameworks now."

IASB member (5)

[You just told me that you think that the qualitative characteristics are or may be considered to be recognition criteria]. I think they might. I think they might operate as our recognition criteria. We would say that, given the opportunity to recognise something as an asset, given the fact that it meets a definition, then we would ask ourselves, well, having said that, does recognising it meet the decision usefulness, and all the other qualitative characteristics, and the objectives. That might function as recognition criteria. [As an intermediate phase between meeting the definition and the measurement phase]. Right…

The qualitative characteristics for financial reporting are insufficient for asset recognition purposes.

Accounting expert (3)

[Returning back to question two, it says that one board member argued that the asset definition with the qualitative characteristics relevance and representation of faithfulness is enough. I don't think we need additional recognition criteria. This is from their transcripts]. I disagree with that. That may work in a hypothetical, perfect world, but it does not work in… Everybody has got to remember that financial reports are to be used in an economic environment, the professional world, and you cannot take the accounting standards out of the context in which they are supposed to perform a function. We do need to have additional recognition criteria, for instance, reliability, as I've said. In certain circumstances we need to have some additional recognition criteria as to how…for instance if I obtain an asset by conducting a service, when am I to recognise that asset? In traditional recognition questions, it's… The only help I have in deciding when to recognise that revenue, for instance, is the asset definition. I think I'm not going to be well equipped. I need more.

Accounting expert (4)

There's the argument about do we have an asset or not. That's our first decision. We could have lots of assets that don't get onto the balance sheet. It's very often the directors say 'Our greatest asset is our workforce', and we thank our work force for their continuous work for us. The workforce meets a number of criteria, I would have thought. Their knowledge, experience and training represent a huge asset, which is currently off balance sheet. It does bring us benefit in the future. You could argue that we have invested training, and time in the past, and they have some cost, but it doesn't get into the balance sheet because it's too unreliable. I think the more recognition criteria we have, the better. The more advice we have, the better. I think…. [So do you agree that we should have recognition criteria to support the asset definition]. Yes. There's one thing to say we've got an asset and another thing to recognise it. We all recognise that the workforce is an asset. It's highly relevant and we see it in the notes to the accounts. You could work out an economic value for all your workforce, based on the amount of re - training you'd have to do to replace them. There's human asset accounting which has been developed to try and value the workforce. It can be done, but it doesn't get into the balance sheet because we don't have slavery and we don't own these people. They can leave if they want. It's not reliable to put them in the balance sheet because the asset may not last for the next… You do see it in football club accounts. If you look at the accounts for Manchester United, the players that they've purchased, the costs for their contracts in the balance sheet. They depreciate or amortise footballers contracts in line with FIFA guidance about age of players at the end of their contracts. Human resource accounting can occur with golden hellos you get from CEOs and in particular instances like football clubs, but not in the vast majority of companies where you have a workforce. What we're saying is you can have an asset that meet the definition of *an asset, that meets the qualitative characteristics, is relevant, and represents what it is, but still fails to meet separate recognition criteria because separate recognition criteria they will be based on reliable measurement, and some kind of prudence or neutrality, and some kind of reliability test. That's where you say the workforce is a big asset, but unfortunately we do not see it on the balance sheet…. The confusion is around the terms 'recognition' and 'measurement.' Normally, when you talk about recognition, you talk about measurement. It's whether you can de - couple those two concepts. [That's why I tried my best to differentiate between both of them. Recognition includes a part of the measurement if there are two sets may be interesting in one point, but they are completely two different sets]. Yes! But most people will add together recognition and measurement. In my example of the workforce, I acknowledged that it is an asset, but I'm not able to measure it reliably and therefore it fails my recognition test.*

4.2.6.4 'Relevance' as a qualitative characteristic for financial reporting

The interviewees confirmed the following:

<u>Relevance as a part of the qualitative characteristics for financial reporting.</u>

IASB member (2)

I think if something meets this definition it would be a candidate to be included in the financial statements. If it is an asset of the entity then the question is does it meet the qualitative characteristics? Is it relevant? Well, if it is an asset it is relevant to be an asset…the user should know that. So, it needs to meet the relevance test and then the other test is faithful representation".

IASB member (5)

The difficulty is that it runs smack into the wall of the fact that we don't recognise things that are relevant, we could come up with a faithful representation… So there must be a reason why not. We've never articulated a very good reason why not. Other of our constituents are scared to death that we might, because if we recognise it then they'd be held responsible for it. So I think, as I say, there's a tension there that if… I guess it's a sort of a dissonance between if you say you don't need recognition criteria – that suggests that anything that meets the definition, and meets the qualitative characteristics – should be in the balance sheet. Well, it's not. A lot of people say it shouldn't be. That suggests that you need some kind of a decision rule about recognition. Now the existing decision rules that we have about recognition, both in our framework and in the FASB framework, aren't any good. The FASB one says it meets the definition and it's measurable. Well, there are lots of things that meet the definition, are measurable, and we don't recognise them. I think… I don't know if we need a recognition criteria, but, unless we're going to wholesale recognise everything that meets the definition, then we need to explain why we're not going to. I'm afraid that the real world trumps the intellectual and we're going to need recognition criteria. I hate *it, but I'm afraid it's true…. The qualitative characteristics, I think perhaps are recognition criteria.*

UK ASB member

I think you need a definition first of what an asset is, then you need a criterion that says what level of certainty knowledge am I going to demand before I recognise it, and also at the moment the other measurement criterion is how reliably can I measure it?....... It's value relevant information that is disclosed but not part of the accounts. The accounts double entry system has to have reasonably reliable information in it. That means you are reasonably certain that the asset or liability exists now it is not just a prospect and secondly the measurement of it is reasonably reliable so the accounts themselves do have in numbers that the user can rely on…. They [assets] are there because they would affect an analyst's assessment of the business and therefore their valuation, so they're value relevant.

4.2.6.5 Reliability vs. Representational faithfulness

The interviewees confirmed the following:

<u>Representational faithfulness replaces reliability as a part of the qualitative characteristics.</u>

AcSB member (1)

Personally, I think you probably need measurement reliability criterion of some kind, as well, because we are going to hit examples where we have got something that meets the definition of an asset, and we do not know how to attribute a number to it, and we can't put staff on the balance sheet that do not have numbers. It doesn't add up. So that's why, personally, we are going to have circumstances where there are things that we would not be able to put on the balance sheet. Because of that, we will have to deal with them in some other way…. Assuming that there is a reliable measurement hurdle, you are going to say 'I do not know what number to put on there? And then you start to say how else can I faithfully represent that? So if I can not get good enough number for the balance sheet, what is the disclosure that I am going to give about it?…. [From your point of view what do you prefer – reliable measurement or representational faithful measurement?] That's a good question. That's something we have to deal with as we go forward. I think what we would probably want to do, and this is just me talking, is talk about faithful representation, so we are going to talk about the ability to faithfully represent these things in numbers, and if we incapable of faithfully representing in numbers we have to fall back on disclosure or something.

IASB member (2)

A measure of reliability is faithful representation…. So, we have to be able to faithfully represent it and it will go through all of the qualitative characteristics, *then, I would say, why not recognise it?... [Yeah! This means that after you define an asset and before you measuring it, you need to make a test even for the qualitative characteristics]. Everything that goes into the financial reporting should have the qualitative characteristics……. 'Relevance'...I think if an entity has an asset it's relevant. [Mary reads from the new framework booklet published about the objectives and the qualitative characteristics]. 'Representational faithfulness', you have to find a depiction that is complete, neutral, free from material error, reflective, depictive, economic substance of the underlined transaction, event or circumstances."*

IASB member (1)

[And we can recognize it in the financial statements if it meets the definition and the measurement]. Well, that depends on what you meant when they said measure it reliably. If assigning a number to it is a reliable measure, then…[Do you mean that recognition should be to meet the definition and to be measurable?] I do not understand what you mean by 'meets'… [To meet the definition]. It has to meet the definition, and it has to be measurable or I wouldn't know what to do with it.

IASB member (4)

[So do you agree with reliable measurement or representational faithfulness?] I think you have got to be able to faithfully represent the economic resource that you have the present 'right' to. If you cannot do that, if it's not possible because you don't have the measurement tools to do that, the information would be potentially misleading if you would represent it. It is still important to have the qualitative characteristic. That plays an essential role in the determination of the quality of information that could be provided to users….we must be neutral, so let's have a set of recognition criteria that treat assets and liabilities equally. They probably reduce the incidence of recognition of liabilities and raise the incidence of recognition of assets, because assets weren't being recognized until they are certain, liabilities will be recognized when there is a possibility.

IASB member (5)

The difficulty is that it runs smack into the wall of the fact that we don't recognise things that are relevant, that we could come up with a faithful representation… So there must be a reason why not. We've never articulated a very good reason why not. Other of our constituents are scared to death that we might, because if we recognise it then they'd be held responsible for it. So I think, as I say, there's a tension there that if... I guess it's a sort of a dissonance between if you say you don't need recognition criteria – that suggests that anything that meets the definition, and meets the qualitative characteristics – should be in the balance sheet. Well, it's not. A lot of people say it shouldn't be. That suggests that you need some kind of a decision rule about recognition. Now the existing decision rules that we have about recognition, both in our framework and in the FASB framework, aren't any good. The FASB one says it meets the definition and it's measurable. Well, there are lots of things that meet the definition, are measurable, and we don't recognise them. I think… I don't know if we need recognition *criteria, but, unless we're going to wholesale recognise everything that meets the definition, then we need to explain why we're not going to. I'm afraid that the real world trumps the intellectual and we're going to need recognition criteria. I hate it, but I'm afraid it's true… The qualitative characteristics, I think perhaps are recognition criteria.*

UK ASB member

[So you're in favour, for example, we can have a method that it can measure reasonable uncertainty in the measurement method]. Yes. I think it depends… In terms of the measurement properties of the number you're getting, it depends very much on reliability to me. Reliability is something that has been cut out of the framework now. It's called representational faithfulness. As an advocate of fair value, I'd say the only thing that's representationally faithful is the market price…Measurement is one of the recognition criteria at the moment. If you can't measure it reliably, you don't recognise it. It isn't true that everything you think you can measure, you'd recognise, because it may not be reliably measurable…. [So one of the criterions we have to take into consideration when we consider an asset to be measured is that an asset is measurable before the measurement phase]. Measured reliably. You can look at a business without any knowledge and guess. [We don't mean we'll put it in simultaneous or consequent phase. They mean that when an asset has finished its measurement phase, it should have already passed through the other two phases]. It should have passed through them. If the other two have been gone through first, I have no quarrel with the analysis. First of all, you decide whether there's an asset there, you then decide whether there's something there worth looking at, and then you decide whether it actually is there with sufficient certainty to try and measure it, and then you decide whether you can measure it reliably. If it passes the test, you recognise it and measure it. [The point of uncertainty is very important here]. It is.

<u>Fair value removed Reliability from the CF.</u>

Accounting expert (3)

"They want to get rid of reliability because it's a problem with respect to fair value accounting because… In the discussion paper that came in 2006, they said it was not the change of reliability, it was just a change of words. Faithful representation is exactly the same as reliability. A lot of the response letters criticised because there is a big difference between what they call representation of faithfulness and reliability. What they have done now is taken out verifiability as part of the faithful representation. When they take that out, obviously, verifiability is an important aspect of reliability. If you take out verifiability, faithful representation is clearly something else than faithful representation. If you ask an analyst if he would like to have financial reports that cannot be verified, what kind of answer do you think you're going to get? Why do you think auditors are requested to give some kind of confirmation in Europe, US, or wherever? It's because the users want to have some verification. In my view, you definitely need to have reliability. If faithful representation is a better word, which it is not, if they think so then that's fine, but do not change the content. Also,

include it as a recognition criterion because we cannot have total unreliable information in financial reports if it's going to be useful".

<u>Current value is partly reflective of future value.</u>

IASB member (5)

All measurements are prospective, in that they represent the current value that someone is willing to place on future benefits. It's just not useful to get into a game of saying, well, do I use prospective or observable? Because, if I had an observable price, I'd use it. If I don't, I do something else to try to approximate it.

UK ASB member

The recognition should be of the past and present, not the future. The future may have a bearing on present values. If the future prospects look bad, maybe it's sensible to write it down in a prudential way. That's against the IASB's revision of the framework, though…..

IASB research fellow

I don't know that current means anything in that context. I think current is a representation of the future. Past is separate because past is whatever value is attached to something in the past. A current value is what we currently think it will be worth, given our expectation of the future… We can say with the greater or less certainty whether our current valuation is reliable or not. That's what it is trying to do. [Are you in favour of some sort of reasonable uncertainty in measurement?] I think it's unavoidable.

Accounting expert (3)

I think IASB is right when they say that fair value, which is what they referred to as an exit value, I think it can…If you have an equity instrument, for instance, a stock or share, then you can just go to the stock exchange, observe the price, and that price is the current price, and the price is based on what the market expects of future cash flows from that company. When you ask me to separate the current pricing from the future, it makes no sense because the current price reflects the future. It also reflects part of the history. It's nonsense. That question D is nonsense. I understand why you're asking because it reflects the current discussion of the board members, but it gets us now here.

Accounting expert (4)

Asset measurement should attempt to faithfully represent current economic phenomena, the key word being current, not past or future. It's similar to what we've just been talking about. If we don't have a liquid market then we don't have *a current value, and therefore we might have to use the past or the future. Have you seen the front page of Accountancy Age this week? It is saying 'don't kill fair value' because the SEC wants to drop the rules on fair value. It's a very contemporary interest.*

4.2.6.6 Decision usefulness

The interviewees confirmed the following:

<u>Decision usefulness is contestable (because it depends in part on whether the Asset - Liability or Revenue - Expense perspective dominates).</u>

Accounting expert (3):

[From your point of view, when can you disagree with this assertion (asset has the conceptual primacy)?] I'm just saying that for anybody to agree that this makes sense you have provide a link between the decision usefulness objective and the asset liability view. No such link has been provided. From practice, as you may be aware, I practice as a technical partner within Ernst Young. From practice, I know that on several occasions we do have the asset liability view deducted accounting policies that obviously do not facilitate decision usefulness. [In this case, which element will facilitate the decision usefulness?] Sometimes the asset definition or the liability definition, the whole point with asset and liability definitions is they will preclude some types of debits and credits to go to the balance sheet. Sometimes those definitions do not allow for certain elements to be included in the balance sheet that from a decision usefulness perspective…….. When analysts get the financial reports, they clean out things that they do not believe should influence earnings. Sometimes, for instance, in the case of regular distances, utilities, for instance, which is regulated in many European countries, analysts clean out the asset liability based revenue and expense numbers because they don't think they facilitate the earnings number. That says to me that there may be something wrong with the asset liability view. I'm just saying when the analysts clean out things from the financial reports, from financial numbers, which they are going to be using for their purposes: I'm just asking can this be right? Does the asset liability view follow logically from the decision usefulness objective? I'm saying maybe it doesn't. I don't know the answer, and nobody does. The FASB didn't care to look into this in a more comparative manner. [It's very important for me. I would like to know the links between the objectives and qualitative characteristics, and defining the elements, because it is very important]. Exactly……. I'm saying I don't have any view on that deduction, except that I don't know how they got from the decision usefulness objective to the asset liability view.

4.2.6.7 Prudence vs. neutrality

The interviewees confirmed the following:

Unclear as to whether 'neutrality' should replace 'prudence / conservatism'.

IASB member (4)

You had a lack of neutrality in accounting. Liabilities would tend to be recognised in circumstances, but assets might not, so assets should have to meet a higher hurdle. So some of us said, when we started developing the conceptual framework, no, that is wrong: we must be neutral. So let's have a set of recognition criteria that treat assets and liabilities equally. They probably reduce the incidence of recognition of liabilities and raise the incidence of recognition of assets, because assets weren't being recognised until they are "certain". Liabilities will be recognised when there is a "possibility". So that is why we felt we are comfortable in getting better accounting, but now we say 'hang on, you should recognise these assets and liabilities from day one.

UK ASB member

[The board member meant that since we delete the conservatism, the reason for deleting the conservatism is to treat assets the same as treating the liability]. I think that's just wrong. My example of the own credit risk is relevant to that. If somebody owes me money, that's an asset. I would write down that asset if I thought they weren't going to pay me. I'd make a provision, you see. I'd be treating it differently.

Accounting expert (3)

Question three says that neutrality means there is no difference with respect to liabilities and assets. I agree. In principle, I agree. Since the FASB has agreed that stewardship is a primary objective of accounting, I think that this may be a problem. I agree in principle, but I'm not sure, if you look at stewardship that it is right. Stewardship is about the aging principle problem. As an owner of a business I would be more concerned that the management portray the business better than it was than if they portrayed it worse than it was. It may be within a stewardship perspective that I would put more emphasis on the reports not being over valued than them being undervalued. I guess that goes to the fore, also, because that's to do with conservatism. I understand what the board member says, and I think in the ideal world I agree. But in non - ideal world, where we do have uncertainties within the fair value estimates that we provide, we do have uncertainties within a lot of estimates that we provide, I'm not sure we should just… Recognising the stewardship objective: I'm not sure that neutrality should overrule any form of conservatism.

Accounting expert (4)

Yes, in getting rid of it [prudence]. I'd like to get rid of it. You get rid of conservatism because it's a bias. We want to remove bias from accounts, and conservatism is a deliberate downward biasing.

4.2.7 Criteria for asset measurement bases

In asking the interviewees the questions:

In a pre - measurement phase:
a. What is your view on the assertion that only one measurement basis should be used in accounting?
b. What is your view on the assertion that, wherever possible, assets should not be measured individually and, therefore, not as bundles of assets?
c. What is your view on the assertion that whatever measurement basis or bases are used, they should be observable rather than predictive methods?
d. Any asset measurement should attempt to faithfully represent current economic phenomena - the key word being "current", not past or future…..

…the following categories arose:

4.2.7.1 Asset measurement

The interviewees confirmed the following:

Asset measurement is the act of assigning a figure to an asset within the context of asset recognition process.

AcSB member (1)

I guess a 'measurable asset' is the characteristic of whether the asset is capable of being measured, whereas 'asset measurement' seems to me to be the process of doing the measurement.

AcSB member (2)

Asset measurement is what value and the means by what you put a value on an asset. I guess a measurable asset is one that's capable of measurement. A measurable asset might be measurable in only one way, whereas asset measurement… I'm not sure. I just think they're mirrors.

IASB member (1)

[And we can recognize it in the financial statements if it meets the definition and the measurement]. Well, that depends on what you meant when they said measure it reliably. If assigning a number to it is a reliable measure, then…[Do you mean that recognition should be to meet the definition and to be measurable?] I do not understand what you mean by 'meets'… [To meet the definition]. It has to meet the definition, and it has to be measurable or I wouldn't know what to do with it!

IASB member (2)

If you do not recognise, you would not put it in the financial statements that what recognise means, so you cannot …. If you can measure it, you still have to put it in the financial statements. That's what 'recognise' means and just measuring it does not mean you have recognised it. [Yes, but it comes after meeting definition as you said at the beginning]. No! I am saying, the act of measuring is different from the act of putting it in the financial statements. I am not saying that there should be any more criteria but, if we can measure assets, then simultaneously we can identify it and can recognise it. It is not past tense: just measuring it doesn't mean you have already recognised it.

IASB research fellow

[So you mean that the definition will be all - inclusive, including the definition and including also the criteria to recognize assets in financial statements]. The way I would see it is there should be a framework that defines in principle what an asset should be, but no presumption that is applied universally. The framework is not a standard. It's 'This is what an asset is.' What you include in the financial statements should meet a test of reliability of measurement, and the default of not including something which meets the definition of an asset, but can't be measured reliably, should still be there.

4.2.7.2 Nominal measurement vs. real measurement

The current mix the nominal and real measurements is not additive and therefore, the measurement of financial capital maintenance between balance sheet dates is an approximation.

AcSB member (2) :

Conceptually, I'd like to start off with nominal – ordinal slot in between and I'm not sure we've worked with nominal a little more carefully and at least understood what an asset is. [This means nominal and real are of concern when we put the definition of an asset, or to put it in recognition]. I suppose you couldn't actually measure… You could have a list of nominal assets, with some description of them. But what we can do in the Canadian conceptual framework which is not a sort of other contradictions if it supposedly says that if all we're trying to do is trying to put information for investors. What happens then is *there's a blind take that if you follow these assets and liabilities rules then you'll get the best information to investors. Nobody has ever shown that following these assets and liabilities rules get the best information for investors, but that's where it starts. It's all about information…. For example, if you're doing financial [capital maintenance], and you really wanted to go back to Hicks' notion of wel offness, then ought you not to be doing it in the sense of a person's welfare, and ought you not to be inflation adjusting, almost for sure, before you can declare income? I have to have at least the purchasing power before. Again, if you came back with…It comes back to thinking whose welloffness. Why should I measure nominal dollars? [Which means we should have a good measurement scale]. Yes. Also, it depends what you want to do it for. Suppose you want to do it for taxation purposes, redistribution of wealth… I think if you do it for taxation, it almost immediately drives you to a purchasing power version of financial capital meaning, if you want it to be fair. If I invested twenty years ago, and you invested yesterday, then if we do it in nominal dollars, the measurement of our change in welloffness is horribly skewed. Yours is perfect. It's only one day of inflation out. Mine is just… I may actually be deep in the red. Those issues just get glossed over. It would be interesting if we addressed them. I think that fact that we always claim information allows us to get away from all these fundamental income measurement things, even though, when we go to do it, we sort of go to this hard economic facts of assets and liabilities, and I get you the best income measurement. But, we're not really doing income measurement, we're doing information. I find that sort of weird circle is not a circle. It just doesn't join up. I find that a little bit hard in the way it guides us.*

4.2.7.3 Observable current measurement vs. predictive future measurement

The interviewees confirmed the following:

<u>It is not mutually exclusive chosen because it depends on the chosen measurement bases (plural).</u>

IASB member (5)

"In other words, I should have a hierarchy. Remember I said a hierarchy. A hierarchy doesn't tell me I can't use other methods like discounted cash flows. To estimate fair value, I do that all the time, especially for liabilities. What's the observable balance of an asset removal obligation? There is none. I have to have some other method. But what I'm doing, I think, is always trying to approximate that notion of fair value and initial recognition, that's in my mind".

UK ASB member

Personally, I'm not against valuing in terms of future cash flows, looking at present value, because that's what we do with impairment tests, for instance. I think there are properties of measurement that mean that if I felt that there was equal value in having a market price and an estimate, I'd probably go for the *market price because of reliability. [So you're in favour, for example, we can have a method that it can measure reasonable uncertainty in the measurement method]. Yes. I think it depends… In terms of the measurement properties of the number you're getting, it depends very much on reliability to me. Reliability is something that has been cut out of the framework now. It's called representational faithfulness. As an advocate of fair value, I'd say the only thing that's representationally faithful is the market price.*

IASB research fellow

I think it's a grey scale. I don't think you can really say that you can have a market place for a financial instrument. The market price is itself what the market thinks the future cash flows will be. It's more observable than your own estimate of what the future cash flows will be, and there's a grey scale between something traded on a market and something that you're valuing yourself. I think it's not an either / or.

Accounting expert (3)

It depends on what is the measurement basis. If the measurement basis is fair value, I believe it should be based on observable input and observable outputs. There are a huge number of different measurement attributes. It could be that… To answer this question on a general basis doesn't really make sense. If we talk about fair value, I believe that we need to have some observable…When I said I agree, I meant in reference to fair value. [So this means it depends also on the measurement we are going to use]. Yes.

4.2.7.4 Measurement bases

The interviewees confirm the following:

<u>There is no clear answer on whether a single measurement basis or more can be used in accounting.</u>

IASB member (5)

An initial measurement, if we could ever decide exactly what fair value means, then we should only have one measurement basis on initial recognition. I don't think that you'd get much disagreement with that.

UK ASB member

I think there should be an objective. I quite like the idea of 'value to the business', which does actually give you the choice of measurement bases. One asset doesn't necessarily have a single basis, but you select the basis according to the circumstances of the asset. That's very traditional, in some ways. Under the old historical cost rules, we used to often do historical cost, or market value, *whichever is the lower. Under the impairment rules, under the FASB & IASB rules in business combination, those rules say you measure the asset initially at fair value but subsequently you asses it for impairment. If the present value, or value in use, is less than the original fair value, you right the asset down. In a way, that's not a single measurement basis. You're combining different bases. It's appropriate to the circumstances of the asset. I actually quite like impairment tests, but they don't seem to fit in very well with the IASB's new framework. The idea of impairment is an asymmetric prudence sort of idea. We do use it at the moment, so to that extent I do think that one measurement basis is wrong. It should be an appropriate measurement basis. And the choice of measurement basis shouldn't be done at random: it should be done according to some objective. My objective would be along on line with a value to the business objective, showing what that asset is worth to that business in its circumstances.*

Accounting expert (3)

I'm saying that I do not think we can have one measurement basis. I think we need a mixed measurement basis. It depends on circumstances. Under certain circumstances it may be appropriate to use fair value, defined as an exit value, as the measurement basis, then reliable prices, and we're talking about business, which is typical trading business. Then I said, with respect to the discussion, whether pricing should be current, or future, or past related, to me that makes no sense because if we're talking about fair value then we're talking about the current value, but the current value reflects expectations about the future. I think this is just rhetorical.

<u>There are 29 measurement bases for financial measurement.</u>

AcSB member (1) :

"There may be all sorts of ways we can faithfully represent something, and there may be a range of the measurement bases we can use, and that gets us across into the other bit of the conceptual framework that we have not developed yet, which is what are the suitable measurement bases? If you go through the FRS today, there is something like 29 different measurement bases that are used. We would like to limit those and figure out which one is suitable and which is not, but we have not got there yet".

4.2.8 Supporting devices for asset - based recognition

In asking the interviewees following question:

Would you regard the going concern concept as a feature of the asset recognition process? Do you think that the proposed definition will be enough to delineate an asset from an expense?

The following categories arose:

4.2.8.1 Going concern:

The interviewees confirm the following:

Going concern is an assumption under which the whole business operates. It is not only limited to accounting for assets recognition but also for measurement.

UK ASB member

Going concern concept is very important. We've got to have a basic concept of what we're assuming…….. It's an assumption for the whole of the accounts. It's fundamental. It's not just for recognition. It's for measurement as well. Your measurement criteria would change drastically.

Accounting expert (3)

If the whole point is the going concern concept, the idea is you should give some information about what is the value of the going concern concept, I think you might be allowed to bundle assets. [From your point of view, what are the users' needs in practical life?] Going concern.

In asking the interviewees following question:

Do you have any views about whether and how non - transactions - based or internally generated intangible assets could be disclosed in the financial statements?

The following categories arose:

4.2.8.2 Documentary and / or physical

The interviewees confirm the following:

Measurements do not necessarily have to be transaction - based as typically supported by documentary and / or physical evidence.

IASB member (2)

I do not think that we should have to have transactions. Why do we have to have a transaction? What we were about if you read this [proposed CF] it is about economic events, circumstances and changes in them. Now, it has nothing to do with a transaction. A transaction is only one type of economic event, circumstances. So, this new conceptual framework is much broader than *transactions already. [Great! So we are in the way to broader the area of a transaction]. That would be my preference. A transaction is used in here. It talks now about economic events, circumstances and conditions. Transaction is one type, and again, that is my personal view. This is going to be a big argument ….many people think, they feel better if they see a transaction. [i.e. when we have an evidence]. Exactly.*

Accounting expert (4)

[Do you agree about returning back to the difference between the transaction based and the valuation based?] If we have a valuation base, that's fine, but you need to be consistent. When you know your football team is worth a hundred million pounds, and fifty million of that football team has been bought in, and fifty million pounds has been home grown, then the balance sheet should have a hundred million on it, not fifty, because that's misleading. You can't compare a football club that has home grown talent with a football club that has purchased in its talent. You've lost comparability across the industry, then. Although IAS 38 won't recognise them, I think that's too strict, and we need to take a reasonableness test and say materiality 'We'll put them in because it's useful information.'

<u>We are in need to broaden the area of the transaction basis.</u>

IASB member (4):

"*So how can you know that you get the right and other access to this resource? Well, because this contractual relationship enables me to use it, to manage it, to transfer it…and so on. So this explains the right and other access".*

IASB member (5):

[It's very important to decide whether they should be only recognised when there's a transaction or maybe extended to a non - transaction based]. You've read the book, so you know what my view is. I would tell you that, in talking to financial statement users, they don't want it. They don't want intangibles recognised on the balance sheet. The reason why is because they say the only relevant measurement would be fair value, and they don't trust management to do fair value. I was amazed. We did an agenda proposal on intangibles, and the response from financial statement analysts was overwhelmingly negative. This was not from twenty - one year old brokers …….You disagree with the non - transaction based. I think there should be. It's just that nobody wants there to be. If the people who use new coke… You're not old enough to remember new coke. Coca Cola changed its recipe and everybody hated it. Well, not that kind of liked it.

AcSB member (1) :

[So do you agree that a non - transaction based or internally created intangibles, which can generate future economic benefits should be recognised in the balance sheet?] That's my starting point. Yes! Definitely. [Also the case where it is based on a documentary basis, even if it is a non - transaction based]. Yes! If I can see that I have got something I have created, like drugs and things, then I would expect to start by saying that ought to be going on my balance sheet? [This would return us back to legal rights or ...]. Yes. It may be legal. If I've got it, I may have patented it, but that's partly what I didn't dwell on today in the tail end of the asset definition, where we talked about having access to the thing, where I may not have patented it, but I've got it in my safe locked away somewhere. I've physically got the thing. That also creates an asset. [So do you agree that nowadays the transaction based should be expanded to include a transaction - based and non - transaction based]. Yes. That's, again, when I was talking this morning about not focusing on the past events'... It is unnecessarily to find a transaction, as long as you can see the thing is there now and that the entity got it.

IASB member (2) :

[We need to broaden the area or the meaning of transaction in nowadays environment]. I do not think that we should have to have transactions. Why we have to have a transaction? What we were about if you read this [proposed CF] it is about economic events, circumstances and changes in them. Now, it has nothing to do with a transaction. A transaction is only one type of economic event, circumstances. So, this new conceptual framework is much broader than transactions already.

UK ASB member:

[If we have these recognition criteria within the environment of non - transaction based, we can recognise it.] Now we get to the transaction issue. I'm keen on the idea of transactions and events, but not just transactions. I think that's too narrow.

4.2.8.3 Some assets are not recognised

In asking the interviewees following question:

Do you think that the proposed definition will be enough to delineate an asset from an expense?

The following categories arose:

<u>The definition of an asset is too vague to distinguish an asset from an expense.</u>

IASB member (1)

We do recognise some [intangibles] you know: results of research and development gets capitalised…Internally generated goodwill usually doesn't, but R & D does. Brands do in some places…That's an accounting standards issue. It doesn't mean they aren't assets. Definitionally, you can't argue they aren't assets.

IASB member (5)

[That's why I have here a question for the boundary between an asset and the expense]. Not so much that. A definition, if it's a good one, is as clear about what it excludes as about what it includes. We might struggle with a definition of what is British, but we know that French isn't, and Italian isn't, and Polish isn't. A definition has to both describe what it is and what it is not. That's to the extent that a new definition doesn't do a good job about defining what it is not. That's going to increase the tension about needing to have separate recognition criteria. Now subsequent measurement – what we're talking about now is when do we recognise changes in an asset.

UK ASB member

The problem is, you see, when there's something like a definition… If you have recognition solely by meeting the definition, the question then is how much certainty does you have to have before you think it's the definition. When I was on the board, I used to constantly ask them this question about recognition, and I never got a satisfactory answer. They were very keen to delete the 'probably' criterion from recognition, and I can see that some probability is dealt with by measurement, but not all of it. It's the element of uncertainty that I talk about in the paper. The question do I have an obligation is quite a difficult one to answer. It's not just can I measure it. Things like an environmental liability, for instance, there isn't a legal contract there that tells you you've got to clean up after you've made a mess of the environment. There might be a law there, which has uncertain application… there may not even be a law at the time you do it, but you might be very clear that you're going to have to make it good.

Accounting expert (3)

My point is that these definitions are vague, unclear, and they will not be effective in discriminating assets from expenses. It introduces a lot of concepts and ideas. They're vague and it's difficult to apply them to any circumstance.

4.3 Summary

The themes (pre - determined open categories) that I began to initially explore in the data were those induced from literature review (chapter two) for asset definition, economic resource in respect to asset - based recognition, rights, market - specific vs. entity - specific, separable asset - based recognition, asset - recognition criteria, criteria for asset - measurement bases and finally those which are supporting the process of asset recognition. From these pre - determined open categories, the first two rounds of interviews were conducted. The method of exploring open categories was done by cutting each interview into pieces, each piece revealed an open category, large pieces of paper revealed grouping of common categories and their supporting arguments (as shown in Appendix c). With regards to the presentation of the data and its analysis in this chapter and in the following chapter, the data findings (the interviews) are presented and analysed to show the initial data analysis with regards to the open coding according to the methodology adopted. While in the following chapter, I revealed the deduction - induction process in a way for re - organizing the open categories to form the first picture of the theory in regards to the axial coding.

Chapter Five: Analysis continued: Axial Coding Stage

5.0 Introduction

Strauss and Corbin (1990, p.96) define axial coding as "*a set of procedures whereby data are put back together in new ways after open coding, by making connections between categories. This can be done by utilizing a coding paradigm involving conditions, context, action / interactional strategies and consequences*". So, the main purpose of axial coding is to put data back together in new ways by making connections between categories and their subcategories. Figures 5.1 – 5.4 will guide the overall structure and flow of the analysis to be presented in this regard. The reader needs to familiarise themselves with the content of these four figures in this introductory section, below, before proceeding further.

The axial coding stage of GT starts with the open codes, as presented in the previous chapter. Those codes, which are based on the interview transcripts, are configured, according to the substance of the comments made, into categories and subcategories together with their related properties and dimensions. For the most part, this is an evidence based deductive process as presented in the left and right - hand columns of Figures 5.1- 5.4. Whilst the logical associations between categories, subcategories, properties and dimensions are to be evidenced from the interview transcripts there is also an unavoidable element of researcher bias in the initial construction of the left and right - hand columns of Figures 5.1- 5.4. This is because the construction and strength of those logical associations is dependent on a qualitative and inherently subjective assessment as to the sufficiency of the evidence in support of them. The issue of sufficiency in this regard is what GT researchers refer to as the attainment of theoretical saturation and it will be addressed in more detail in the next chapter.

That evidence is presented in section 5.1 below, and each association is line numbered from 1 to 37 in Figures 5.1- 5.4.

Having deduced all that I can from the open coding evidence, I turned my attention next to the process of induction. The process of induction in section 5.2 is, for the most part, evidence based. For example, you can see from Figures 5.1- 5.4 that some of the open codes are collectively convertible into axial categories. See, for example, lines 1 and 3, in direct support of the axial category: ‘right to control economic resources’. That said, the process of induction would not be complete without some development of that evidence on the part of the researcher towards the creation of a general theory on asset recognition. A tentative first draft of that theory on asset recognition is constituted by the four axial concepts, as presented sequentially in Figure 5.1- 5.4. Those concepts are underpinned by a number of induced axial categories, which, in turn, are dependent on associations presented in section 5.2. Those induced associations are line numbered from 38 to 70 in Figures 5.1 - 5.4. This chapter is therefore divided into:

Section 5.1 Deduction based upon the content of the open codes

Section 5.2 The Process of Induction

Section 5.3: Summary

FIGURE 5.1: AXIAL CODING ANALYSIS (1):

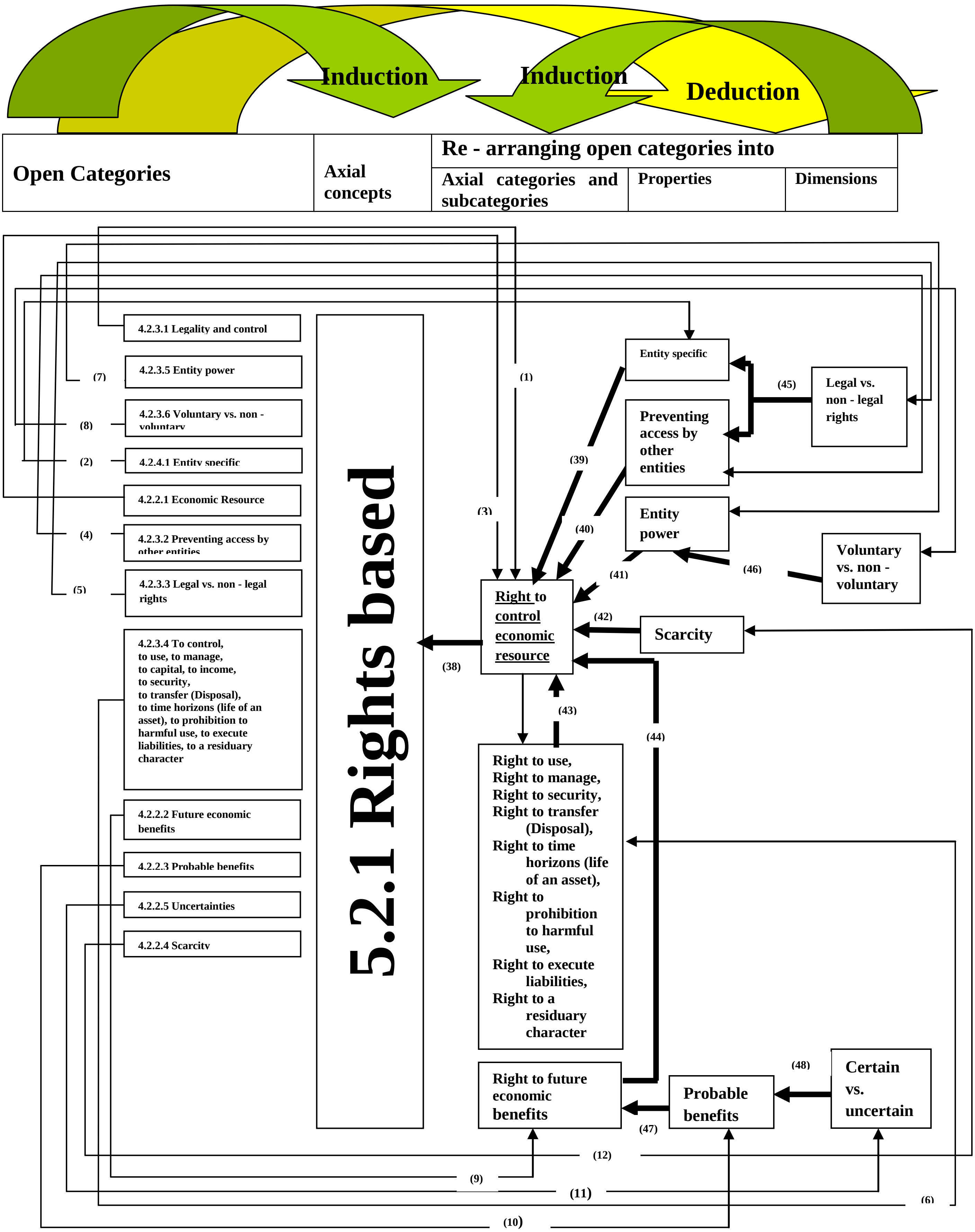


FIGURE 5.2: AXIAL CODING ANALYSIS (2):

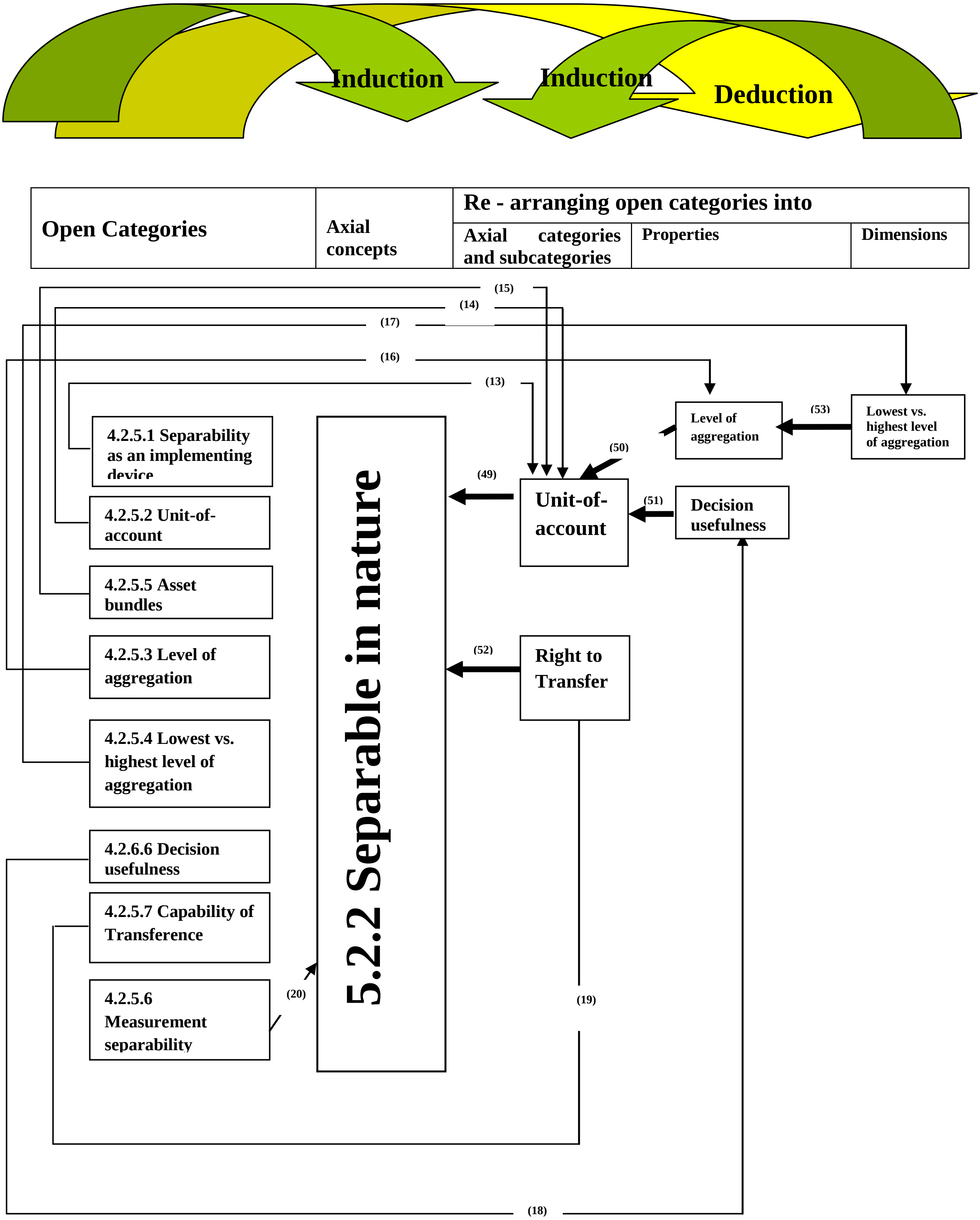
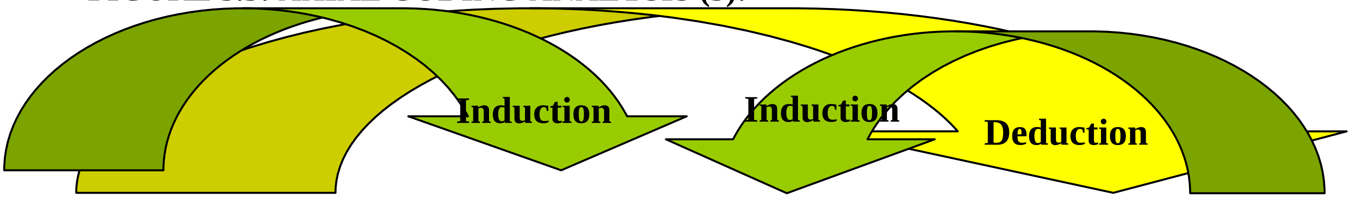


FIGURE 5.3: AXIAL CODING ANALYSIS (3):



Open Categories	Axial concepts	Re - arranging open categories into		
		Axial categories and subcategories	Properties	Dimensions

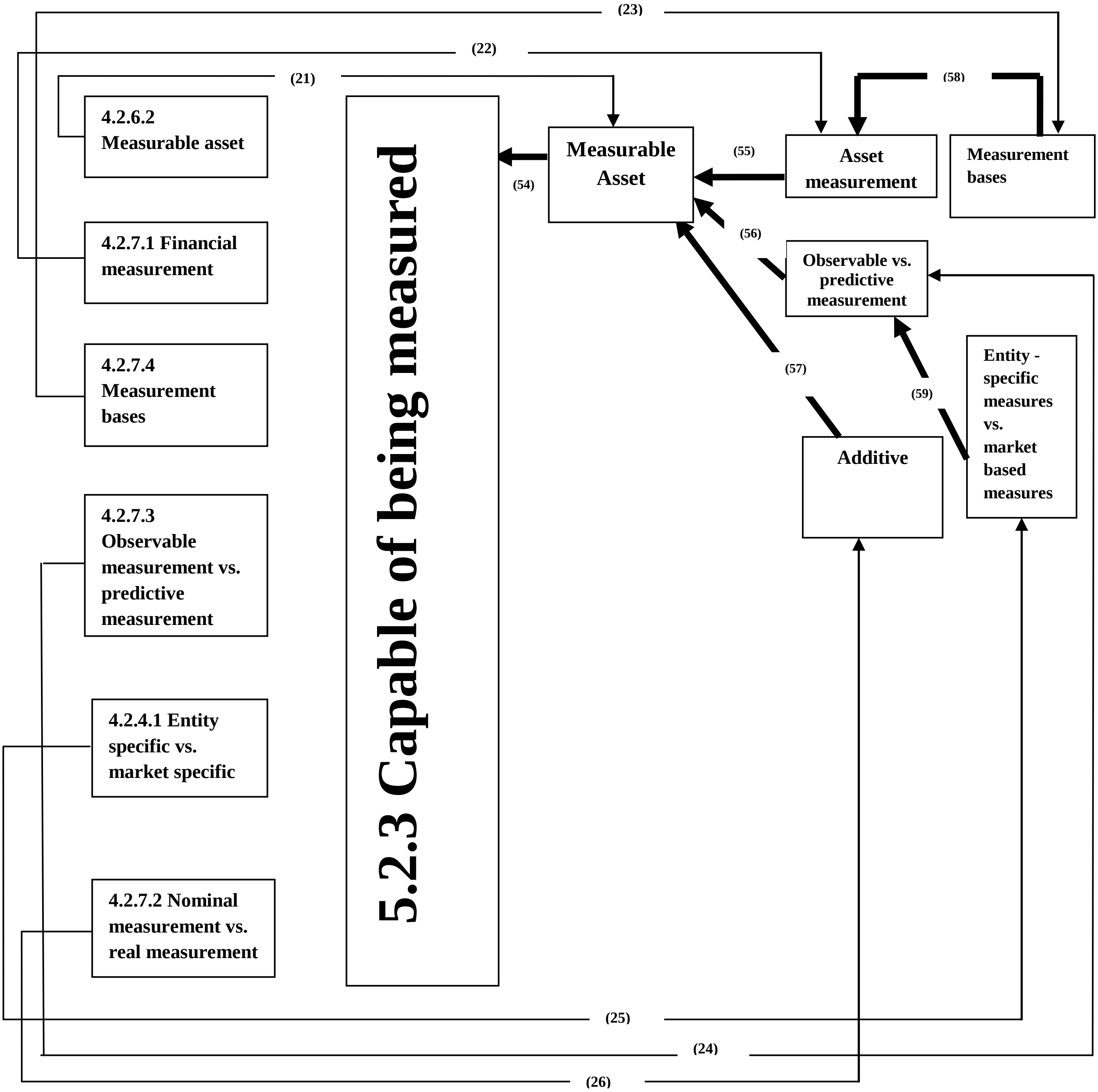
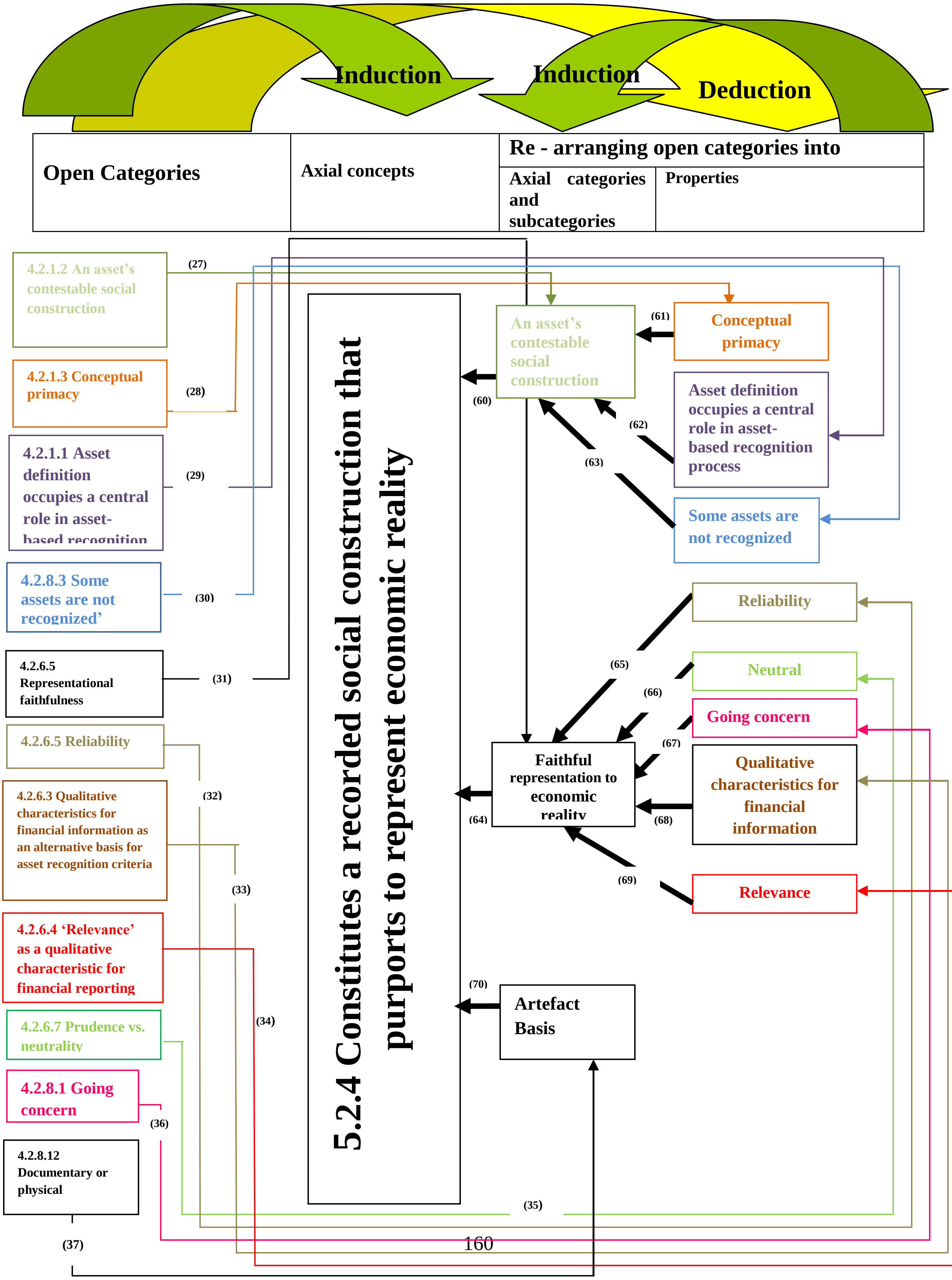


FIGURE 5.4: AXIAL CODING ANALYSIS (4):



The grounded theory is an iterative process between deduction and induction. The 'Deduction' arrow in figures 5.1 -5.4 represents re-arranging the open categories to axial categories, subcategories, properties and dimensions (discussed below in section 5.1). The 'Induction' arrows in figure 5.1- 5.4 represent grouping the open categories into axial concepts and assigning the properties and dimensions to each axial category and subcategory (discussed below in section 5.2).

5.1 Deduction based upon the content of the open codes

Figure 5.1 line (1) 'legality and control' is merged with the axial category 'right to control economic resources'. A business entity should be able to control an asset for the purpose of generating income otherwise there is not much point in being in business. That said, one also needs to mindful of the argument that there is little point in exercising control over an asset if others can use it too or consume it quicker than you can. It follows, that a business entity would ideally want a right to control an asset that others do not have (physically or otherwise) or a right that effectively prevents others from competing with the business entity. The legal rights attached to the action of control are therefore important. For as IASB member (5) said "*control is the fact that it's mine; I have the right to it".*

IASB member (2) mentioned *"these 'rights' are the rights that the entity has otherwise it is not the entity's asset. It could be your asset. It could be my asset…I control my right and it gives me future benefits…".* In addition, IASB member (1) mentioned the following "*The asset is to distinguish the assets of the world from your asset versus somebody else's assets. It's not as descriptive of 'asset' in general as people think it is. It's actually a way of distinguishing if it happens to be yours, which is one of the reasons that most of the current thinking is more to a rights approach. Who has the right?* Accounting expert (3) said

"*Control can be used a link between the right and the resource".* Their comments are perhaps more logical than IASB member (2) 's comment because they argue for 'right - to - the - control - of - resources', whereas she argues for 'control - over - the - rights - to - resources'…but, often, having the right is the only means of exercising control and therefore the right is a - priori to control.

Figure 5.1 line (2) 'entity specific' is a property of rights to control an economic resource. One can see from IASB member (2) and IASB member (1) 's comments, above, that the right to control a resource should be the entity's right, that is, the right is entity - specific. Accounting expert (4) said *"It's our asset. It's not somebody else's asset. We don't put other people's assets on our balance sheet. We only put ours on the balance sheet. That's a legal question I would agree with. That would be part of your pre - measurement test that you were talking about earlier. It would be a legal test".* IASB member (4) also said *"[are assets 'Rights' from which an entity can expect to drive benefits themselves?]I do agree!"* IASB member (5), to repeat, said "*control is the fact that it's mine; I have the right to it".* The property that emerged here is an entity specific right: your asset versus someone else's asset (see section 4.2.3.1).

Figure 5.1 line (3) 'economic resource' is merged with rights to control an economic resource. A 'right' is typically exercised to / over something which, in this case, is an economic resource. IASB member (2) comments "*Any type of right. Any type of right that you have, that the entity has, that is the economic resource".* IASB member (4) confirmed: "*What evidence do I have that 'Right' exists that gives me this economic resource? So the evidence is, because of the 'Right,' I can sell it, I can use it, I can pledge, use it as a security, and so on, so it is an evidence if you like".* Accounting expert (3) said "*there is a link between the right and economic resource. The link is the right gives me access to that* *economic resource".* IASB member (5) commented on the link between rights and economic resource as "*They have to, both be there".*

Figure 5.1 line (4) 'preventing access by others' is a property of rights, specifically, preventing competitors from gaining access to an economic resource. IASB member (2) supported this argument by saying "*Generally, the rights that give you access to benefits, that you can easily limit others' access, or you have rights to, are enforceable. If they were not enforceable you really don't have anything".* UK ASB member mentioned "*…I've somehow got to have the ability to benefit from it myself, whilst stopping other people from taking it away from me, like my customers or the formula for coca cola. To that extent, there must be… That's more like control to me than a right".* Accounting expert (4) said "*A 'right' implies the future, because you have the right to use a brand name to stop other people using it".* IASB member (4) mentioned "*The 'right' may be created through preventing others to access to your assets".* AcSB member (1) also discussed what does 'preventing access by others' mean by the following *"It may be legal. If I've got it, I may have patented it, but that's partly what I didn't dwell on today in the tail end of the asset definition where we talked about having access to the thing, where I may not have patented it, but I've got it in my safe locked away somewhere. I've physically got the thing. That also creates an asset"* (see section 4.2.3.2).

Figure 5.1 line (5) 'legal vs. non - legal rights' is a dimension of preventing access by other entities. The dimension of preventing access by others ranges from legal (contractual, statutory etc) to non - legal (custom and habit etc)), though legal ones strengthen enforcement considerably. IASB member (4), for example, said *"It is the evidence that you have the 'right'. The 'right' may be created through a contract. The 'right' may be created through a contract. The 'right' may be created through preventing others to access to your assets".*

Similarly UK ASB member said "*It's easy to think of rights that are maybe legally enforceable, and may not be, but they're created by custom and habit".* IASB member (2) said "*Generally, the rights that give you access to benefits: that you can easily limit others' access, or you have rights to, are enforceable. If they were not enforceable you really don't have anything*". IASB member (1) said "*It's not that there is a barrier stopping you from you getting to it, it's that I'm the one with the right. Does that make it enforceable? It wouldn't be a right if I didn't have a right. And what I really do…I have it exclusive of you having it".* Accounting expert (3) also mentioned *"one expands it to include both enforceable, legally enforceable and other kinds of rights...... If I cannot enforce a right, how can I say it's an asset?"*

Figure 5.1 line (6) Right to use, right to manage, right to security, right to transfer Disposal), right to time horizons (life of an asset), right to prohibition to harmful use, right to execute liabilities, right to a residuary character and right to future economic benefits are subcategories of the axial category of the 'right to control economic resources' thus creating a deeper understanding of 'rights'. In this case, rights are connected to an economic resource through these eleven functions, as proposed by Honore (1961): to control, to use, to manage, to capital, to income, to security, to transfer (including disposal), to time horizons (life of an asset), to prohibition to harmful use, to execute liabilities (settle debts), to a residuary character. So, for example, IASB member (5) said "*I think from your views, the word* control *is very essential to an asset"*. Accounting expert (3) said "*If you have an economic resource then you have the right to the underlying* capital*. You have the right to future* income *from that resource…"* Accounting expert (4) said *"I can see that we legally might own the asset and have the* right to manage it*, but not to have income or to be* able to transfer it*."* AcSB member (1) said "*the entity may use it as a* security, *the entity may* *transfer it…..“I guess an asset does have to have a <u>life</u>””*. UK ASB member also mentioned *“There is a <u>prohibition to harmful use</u>.”* IASB member (4) said *“the evidence is, because of the ‘Right,’ I can <u>sell</u> it, I can <u>use</u> it, I can <u>pledge</u>, use it as a <u>security</u>, and so on* [the other 11 functions]*”*. IASB member (2) also said *“[These functions were introduced by Honoré (1961) – card 2] “That’s fine. “[Can these functions be used as characteristics of an asset?] “I guess so.” […all 11 functions, you agree…] “Possibly yes*”. But out of these 11 functions proposed by Honore (1961), right to income and right to capital are vital. IASB member (1) commented on these two “*I cannot understand the purpose of the distinguishing ‘right of income’ and ‘capital’ would be [looking at card 2], in terms of the definition……Both are right for future economic benefits”* IASB member (5) also had the same view “*The right to income, you’re running into the problem that Aristotle would have called circular definition. You’re using, in your definition, terms that rely on your definition. Since income depends on what you define as assets, you can’t use income in the definition of an asset. It has to be this notion of future economic benefits”* and UK ASB member also answered my question for these eleven functions*“. [Do you think these eleven functions are only to describe the words ‘future economic benefits’?] My view is that future economic benefits make it much clearer. I agree these are elaborations, but maybe there are things I haven’t thought of”.*

Figure 5.1 line (7) ‘Entity power’ is a property of control. A property of ‘control’ over an economic resource could be an <u>entity’s power</u> (compulsion, force) to effect and direct its use either on a voluntary basis where this comprises labour, and / or on an involuntary basis where this comprises land, materials (including animals), financial assets and artefacts that are separate, or have been legally separated, from labour. IASB member (5) gave evidence by saying *“The tension around control is whether it means control in my ability to deny others access, or whether control means my ability… the fact that, if benefits flow, they will flow to* *me. Does it mean my ability to force someone to do something? We could have, and I think we will wind up… We will take out the word control and then we'll come up with words that do exactly the same thing, because the notion is the economic benefit is mine. I'm going to use the word control; you're going to have to use something else".* UK ASB member also mentioned "*They're still 'rights,' or 'powers' left at balance sheet date. They are undefined. It's like our direction of labour, you see. In the case of labour, you have no rights over your workers beyond what you've paid them to do. They don't owe you anything at balance sheet date, so there is no asset there ..... In the case of the machine, because you've paid for its use over a lifetime, you've still got some unexpired life in it at the end of the year, so, to the extent that it's un - expired, it's an asset. To the extent that it has expired, it's depreciation expense".* Accounting expert (4) also mentioned *"we don't have slavery and we don't own these people. They can leave if they want. It's not reliable to put them in the balance sheet because the asset may not last for the next".*

Figure 5.1 line (8) 'voluntary vs. involuntary' is a dimension of entity's power. The dimension of an entity's power ranges from voluntary to involuntary, as discussed in line 7 and in IASB member (5)'s and UK ASB member' comments. Accounting expert (4) had the following view *"There's human asset accounting which has been developed to try and value the workforce. It can be done, but it doesn't get into the balance sheet because we don't have slavery and we don't own these people. They can leave if they want. It's not reliable to put them in the balance sheet because the asset may not last for the next… You do see it in football club accounts. If you look at the accounts for Manchester United, the players that they've purchased, the costs for their contracts are in the balance sheet. They depreciate or amortise footballer's contracts in line with FIFA guidance about age of players at the end of their contracts. Human resource accounting can occur with golden hellos you get from CEOs* *and in particular instances like football clubs, but not in the vast majority of companies where you have a workforce*". One can deduce from this transcript that, as one does not own people, the exercise of power involves voluntary compliance. In contrast, where control is exercised over an object thing, rather than a person, it is of an involuntary nature and force is comparatively easier to perform. Thus, a distinction needs to be drawn between what is being controlled (involuntary control) and who is controlling or being controlled (voluntary control).

Figure 5.1 line (9) 'future economic benefits' is a subcategory to right to control economic resources, because the primary purpose of such control is to use those resources to generate income or future economic benefits (see line 6). Income and future economic benefits are used interchangeably here whereas IASB member (5) argued that "*The right to income…you're running into the problem that Aristotle would have called circular definition. You're using, in your definition, terms that rely on your definition. Since income depends on what you define as assets, you can't use income in the definition of an asset. It has to be this notion of future economic benefits. So we can change it."* That said, the term 'future economic benefits' makes no distinction between capital and revenue benefits. IASB member (1) said: "*I cannot understand the purpose of the distinguishing 'right of income' and 'capital' would be (looking at card 2), in terms of the definition…[Right to income meaning the right for future economic benefits]. Both are the right to future economic benefits."* This raises an interesting point that centres upon the recent accounting notion of recording comprehensive income in a period of accounting, whether that income is from capital holding sources or revenue operating sources. Such a notion is complimented by an asset definition that, similarly, makes no such distinction in using the generic term 'future economic benefits'. Of course, it is possible to argue for the opposite stance: that the existence of capital is a - priori to the generation of income derived from the utilization of such capital and the distinction is preserved in the financial statements anyway, if not in the definition of an asset. (see section 4.2.2.2)

Figure 5.1 line (10) 'probable benefits' is a property of the right to future economic benefits. IASB member (1) said "*"the word 'probable' (that is in the FASB's) and 'expected' (that's in the IASB's) are both phrases that don't mean what the English language use of the word means. That has been problematic. So, if we do nothing else with the asset definition but find the way of expressing a different way from using the word probable, or expected and quit using the word control, we make improvements".* In contrast, UK ASB member said *"They were very keen to delete the 'probably' criteria from recognition, and I can see that some probability is dealt with by measurement, but not all of it. It's the element of uncertainty that I talk about in the paper. The question do I have an obligation is quite a difficult one to answer. It's not just can I measure it. Things like an environmental liability, for instance, there isn't a legal contract there that tells you you've got to clean up after you've made a mess of the environment. There might be a law there, which has uncertain application… there may not even be a law at the time you do it, but you might be very clear that you're going to have to make it good".* This contrast in views shows that 'probable benefits' is a property for the rights for future economic benefits.

Figure 5.1 line (11) 'uncertainty' is a dimension of the probability for future economic benefits. The probability for future economic benefits can range over a continuum from uncertainty to assurance. IASB member (4) mentioned "*The uncertainties… Part of the recognition criteria that's in the framework are dealing with these uncertainties. It seems more likely than not that cash flow would be generated in the future. This is the thinking. We only want to put assets on the balance sheet if we think it's pretty sure that cash is going to be* *generated in the future. This is dealing with that conservatism I was talking about before. I thought we had passed this now. So we say it is an economic resource. Nothing is certain in this world, so there's uncertainty about the amount of cash flow that would be generated in the future and the timing of those cash flows. So what we need is a measurement approach which deals with uncertainty".* IASB member (1) explained why the IASB intends to delete the 'probable' from the existing definition "*the word 'probable' (that is in the FASB's) and 'expected' (that's in the IASB's) are both phrases that don't mean what the English language use of the word means. That has been problematic. So, if we do nothing else with the asset definition but find the way of expressing a different way from using the word probable, or expected, and quit using the word control, we make improvements"*. IASB member (2) also has the same view like that of IASB member (1) to delete the 'uncertainty' or 'probable' from the asset definition "*there should not be any uncertainty*". While UK ASB member said "*I think you do need levels of probability to decide. The world is uncertain*". And Accounting expert (3) mentioned that *"in the non - ideal world, where we do have uncertainties within the fair value estimates that we provide, we do have uncertainties within a lot of estimates that we provide".* This inherently subjective dimension is probably close to being saturated as regards its connection to 'future economic benefits'. However, there is also an implicit assumption in this connection, specifically, that an asset MUST produce future economic benefits for it to be an asset, albeit with varying degrees of certainty.

Figure 5.1 line (12) 'scarcity' is a property of an economic resource. The exercise of a 'right' to control economic resources typically arises because those resources are scarce. Few people claim a right to the Sahara desert except at the governmental level. Yet the right to the scarce water wells in the land will be fiercely protected. UK ASB member, for example, said *"There are benefits like the ability to breathe air, which are actually valuable. It's* *undoubtedly an asset. If somebody took the air away, you'd really regret it and want it back, but it doesn't cost you anything. That is a valuable benefit, but it's not a legal right because you don't have the right to stop other people from breathing it. It's just there's enough of it around and we can all breathe. I wouldn't put the air in the balance sheet because it's not a scarce thing. If it's scarce, other people will want it".*

Figure 5.2 line (13) 'separability as an implementing device' is merged to the unit of account axial category. IASB member (5) mentioned that "*I would refer to separability and legal contract as implementing devices, or implementing conventions that we use to apply the notion of control..... Almost everything that we recognize in financial statements has the feature of separability or legal rights.............They're absolutely critical for intangibles. What happens is we always recognize a unit of account. The thing I think is key and is especially important for your analysis. I think you have to answer unit of account before you answer definition".* AcSB member (2) said "*I think separability is useful. It kind of goes to unit of account".* IASB member (2) said *"separability is important because if you have control over it then chances are you could do…so you can pass on your right to someone else".* Note also that the word 'pass' is similar to transfer – see line 7 again. Accounting expert (3) mentioned "*I'm in favour of separability. But in the case that you have a bundle of assets, that is assets that are connected, and that one can't be sold without the other one, for instance, because they're so bundled that one has no value without the other one, in my view it makes sense to approach them as a bundle of assets. If it's possible to separate them because you can transfer one item separately from the other one then in my view it makes a lot of sense to separate them. It's not a question of whether you always have a bundle or you always separate. It's a question of circumstances."* In contrast to these four interviewees, AcSB member (1) commented *"I am not sure that it is necessary that you have got to be* *able to separate something for it to be an asset." [But in order to recognize an asset it should be identified separately from the other assets…] "Ok you are back into the unit of account issue and this problem has not been resolved in the framework…[should they be separated?] "...I do not know when we should separate and when we should not separate."* Similarly, IASB member (4) also said *"Separation, separability is not an essential characteristic…No, it doesn't have to be but if it is separable and someone will pay a price for it, then its evidence that you have an asset. If it is not separable, you could still have an asset as long as it is an economic resource."* IASB member (1) also said "*the fact that I can't separate it, meaning I can't sell it separate from anything else. Let's assume that I've got four things and I use them as a unit. Maybe I could sell three of them separately, but I can't sell that one. I don't know whether it's important? Maybe it's just labeling that if I label this as four assets do I get a different answer than if I labeled it asset one, two, three and four? I don't know whether this is all just a unit - of - account measurement issue, or whether it is definitional and recognition-based?"*

One can see that there are mixed views on separability that, perhaps, is reducible to a policy decision as to whether a unit - of - account should include bundles of assets or not. One can see that that policy choice has not been considered yet by the IASB from the following comment by IASB member (2) : "*It depends…there is nothing in the definition of an asset or in recognition that is going to tell you that. You have three assets. We have other criteria in the framework. We talk about the unit of account, which is not discussed in the current framework. That is another aspect we want to fill in that would give us guidance on when we add them together and when we put them separately."*

Figure 5.2 line (14) 'unit - of - account' is an axial category. The unit of account does not refer in the first instance to the unit of measure (for example, money, time) or the measurement basis (for example, HC / RC / NRV). The unit - of - account refers to the level of aggregation at which an asset should be disclosed in the financial statements, that is, individually or bundled? For example, IASB member (1) clarified this point by saying "*Let's assume that I've got four things and I use them as a unit. Maybe I could sell three of them separately, but I can't sell the one. I don't know whether it's important? Maybe it's just labelling. If I label this as four assets do I get a different answer? If I label it asset one, two, three and four? I don't know whether this is all just a unit - of - account measurement issue, or whether it is definitional and recognition - based?*" UK ASB member also said "*What I'm saying is the actual unit we try to recognize will be above the level of separability...I think it's necessary that units that are aggregated must be separable, but there is a level below it that may also be separable……for a small business it might be a one bus company. That might be the level, you see. I'm saying the lower limit on the unit of measurement is going to have to be something that's separable. If you can't separate it, there's no point. It's probably impossible to measure it, anyway, and even if it was, there'd be no point because you'd never be dealing in that quantity. You need the whole thing.*" AcSB member (1) also said "*[For example, if we have five assets, so we have to record them separately. The same will be done with intangible assets. We cannot record them as one figure because aggregating them may result in ignoring another asset.] Ok. Now you are back into the unit of account issue and this problem has not been resolved in the framework, as to whether we look at individual items or portfolio of items. When we look at portfolios of items, we get potentially different numbers because of values attributed to synergies, or dis - synergies going on with them. I guess my view is this may be the unit of account problem.*" IASB research fellow mentioned "*[what is your view on the assertion that whatever possible assets should be measured individually or therefore not as bundles of assets, which is unit of account here?] It depends what you mean by wherever possible. I think it is preferable to value independently, but* *sometimes not meaningful. So it might be possible but not meaningful. You might have two bits of equipment that form a set, and either bit independently does have a market value but it's very small, but the two bits together have a big market value, in which case, do I agree? No, because you can measure them individually."* IASB member (2) said "*It depends….there is nothing in the definition of an asset or in recognition that is going to tell you that. You have three assets. We have other criteria in the framework. We talk about the unit of account, which is not discussed in the current framework. That is another aspect we want to fill in that would give us guidance on when we add them together and when we put them separately"* (see section 4.2.5.2).

Figure 5.2 line (15) 'asset bundles' is merged to the axial category 'unit - of - account'. In addressing the unit - of - account, the unanswered question is how big the bundle should be and at what point should we stop bundling assets for its disclosure as a unit - of - account in the financial statements. For example, Accounting expert (4) said "*For financial accounting, I would agree that you need to match individual transactions, not bundle them together, which has been a big debate with the banks over IAS39…[Do you agree with this assertion that we should aggregate assets based on the type of activity?] There could be some items you don't want to add together. An example of derivatives would be that I would prefer not to add them together, but you could say that a bank could add them together because they're taking a macro view of risk."* In a similar way IASB member (5) said "*We say that a bus is not a bundle of assets. Of course it's a bundle of assets. It's just that it's more relevant and decision useful to describe it as a bus…."* UK ASB member commented "*The appropriate question is how big should the bundles be? Should I bundle the car parts into a car, should I bundle the car into a fleet of cars… That depends on the sort of business, how big it is, whether it operates on a fleet basis or an individual car basis, whether it's a car business or* *a car spares business, you know, all those things will determine the level of aggregations".* Accounting expert (3) mentioned "*…in the case that you have a bundle of assets, that is assets that are connected, and that one can't be sold without the other one, for instance, because they're so bundled that one has no value without the other one in my view it makes sense to approach them as a bundle of assets. If it's possible to separate them because you can transfer one item separately from the other one then in my view it makes a lot of sense to separate them. It's not a question of whether you always have a bundle or you always separate. It's a question of circumstances."* Two features are pertinent here. First, it would appear that bundling, or not, is simply a manifestation of the aggregation issue, addressed next in line 16, and the level at which aggregation should occur, addressed thereafter in line 17. As UK ASB member succinctly puts it "*All assets are bundles. The question to assess is at what level we aggregate"* (see section 4.2.5.4). Second, all the interviewees have addressed this issue from a recognition viewpoint, not a measurement viewpoint – contrast with lines 20 and 21 later which are measurement focused only.

Figure 5.2 line (16) 'level of aggregation' is a property of a unit of account. 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 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. The property of the parts - equalling - the - whole is a theoretical one, one that raises practical problems: *"A spare parts dealer would do it [aggregate] at the parts level. Some people would do it at the machine level. Some people would do it at the factory level. If you've a lot of machines installed in a factory, you'd normally regard that plant as being what you'd sell. You wouldn't pull out the machines that are installed"* (UK ASB member). Similarly, Accounting expert (3) said *"I'm saying you* *have to look at each part of any asset and determine whether it makes economic sense to separate it. If it makes sense to separate it then you do that, but you have to keep in mind the whole underlying idea is it's a going concern. Even if it makes sense to sell the seat separately, as long as my whole business relies on having these buses available, I wouldn't sell the seats. Maybe it makes no sense to separate them for valuation purposes. [So you agree with the concept of separability within the circumstances of activity]. Yes".* Accounting expert (4) said *"[Do you agree with this assertion that we should aggregate assets based on the type of activity?] There could be some items you don't want to add together. An example of derivatives would be that I would prefer not to add them together, but you could say that a bank could add them together because they're taking a macro view of risk".* It is reasonable to conclude that the level of aggregation is very much in the hands of the accountant for each type of business and business circumstance, and, that there is currently no standardized approach to establishing a 'correct' level of aggregation for each type of asset (see section 4.2.5.2).

Figure 5.2 line (17) 'lowest versus highest level of aggregation' is a dimension of 'aggregation / disaggregation' expressed on a range from lowest to highest. According to AcSB member (1) the location of an appropriate unit - of - account remains unresolved: "*…this problem has not been resolved in the framework, as to whether we look at individual items or portfolio of items. When we look at portfolios of items, we get potentially different numbers because of values attributed to synergies, or dis - synergies going on with them. I guess my view is this may be the unit of account problem."* A bundle may be separable and its component elements may be separable too such that the decision as to the level of aggregation is discretionary. That said, the overriding caveat as far as UK ASB member was concerned was that, whatever level of aggregation was adopted, the individual or bundled asset(s) should be separable: "*What I'm saying is the actual unit we try to recognize will be above the level of separability…I think it's necessary that units that are aggregated must be separable, but there is a level below it that may also be separable…for a small business it might be a one bus company. That might be the level, you see. I'm saying the lower limit on the unit of measurement is going to have to be something that's separable. If you can't separate it, there's no point. It's probably impossible to measure it anyway and even if it was, there'd be no point because you'd never be dealing in that quantity. You need the whole thing.*" IASB member (1) , on the other hand, questioned the importance of trying to determine the 'correct' level of aggregation: "*Let's assume that I've got four things, and I use them as a unit. Maybe I could sell three of them separately, but I can't sell that one. I don't know whether it's important. Maybe it's just labeling that if I label this as four assets, do I get a different answer if I labeled it asset one, two, three, and four? I don't know whether this is all just a unit of account measurement issue, or whether it is definitional and recognition - based.*" Establishing the lowest level of aggregation or disaggregation does depend on the asset in question (eg. any patent is automatically at its lowest level) and the type of business entity (eg. a car is at its lowest level for most businesses but not for a car component manufacturer or distributor). With both of these examples, the asset is separable and, in respect of the car, its components are separable too. It would appear that UK ASB member may have a point in insisting upon the separability requirement but, as AcSB member (1) indicates, there may be synergistic losses. However, that is a measurement issue that flows from the decision about the 'correct' level of aggregation to be applied in each circumstance. What is clear is that there is currently no 'correct' level of aggregation, which is capable of being standardized for all asset types and / or business entities.

Figure 5.2 line (18) 'decision usefulness' is a property of unit of account. Despite the conclusion of the previous line (17) one can, nevertheless, subjectively determine a ‘correct’ level of aggregation based on an arbitrary assessment of the ‘decision usefulness’ of the information conveyed thereby. IASB research fellow, for example, said in response to the question [Do you think you should measure them individually?] “No. You should measure them as a bundle.” [It depends on level of aggregation?] “It depends on what level of aggregation provides meaningful information that’s not unreliable.” Accounting expert (3), on the other hand, said the “*FASB have said you need to recognize each asset separately, and I think the answer to that question is quite complicated because the question is… You jump over FASB. The question is what is the financial report to be used to? What is the purpose of the financial report? Is the purpose to give the user some idea of what he can realise of economic values associated with each item in the financial report? In that case, I think you need to separate everything. You cannot bundle the assets. If the whole point is the going concern concept, the idea is you should give some information about what is the value of the going concern concept, I think you might be allowed to bundle assets”.* Whilst each interviewee has a different view on bundling, nevertheless, the link to decision usefulness is made and there is an obvious connection to ‘faithful representation’ later on in the analysis.

Figure 5.2 line (19) is ‘capability to transfer’ is an axial category to the separable in nature, that is, the capability to transfer assets separately from the other assets of an entity. Actual transference usually occurs as a result of a transaction but it does not have to (for example, a gift). IASB member (2) links separability with the capability of transference *“...separability is important because there is a notion that when you have control over something you can transfer it”.* Likewise, Accounting expert (4) said *“I can see that we legally might own the asset and have the right to manage it, but not to have income or to be able to transfer it.”* Likewise, Accounting expert (3) said “*If it’s possible to separate them* *because you can transfer one item separately from the other one then in my view it makes a lot of sense to separate them. It's not a question of whether you always have a bundle or you always separate. It's a question of circumstances."* IASB member (4) was more indirect insofar, as 'paying a price' implies that some form of transfer has occurred: "*I think separability provides you with a good basis of forming a conclusion that you've got an asset. If it is separable and someone is prepared to pay a price, clearly it has got economic value".* The same implication is applicable to IASB member (1) *"...the fact I can't separate it, meaning I can't sell it apart from anything else"* (see section 4.2.5.7).

Figure 5.2 line (20) 'measurement separability': No axial category: This open category, 'measurement separability', is a term that was taken from Napier & Power (1992). In essence, the Napier and Power argument is that if one can measure an asset, de facto, one has recognized it. Yet, it may be reasonably argued that asset recognition is logical prior to asset measurement, otherwise, one cannot be too sure of what one is measuring. IASB member (1) appeared to offer some support for this logic when he said: "*At one point in time I thought one of the solutions to some of the asset things was to say a 'separable right.'...[Aren't you de facto arguing that separability is essentially a recognition issue first?] Before it's a measurement issue? Maybe it is".* IASB member (2) , on the other hand, gave some support for the Napier and Power notion of measurement separability: "*I am saying, the act of measuring is different from the act of putting it in the financial statements. I am not saying that there should be any more criteria but, if we can measure assets, then simultaneously we can identify it and can recognize it".* However, she then qualified this assertion by saying "*It is not past tense. Just measuring it doesn't mean you have already recognized it."* IASB member (4) also mentioned *"I disagree, absolutely, because I think it implies that unless something is separable and, by virtue of being separable, measurable, then you do not have* *an asset".* Accounting expert (4) also said *"I don't think so. Going back to my point about the workforce, you can identify it but you can't measure it. You know it's an asset of the business".* Accounting expert (3) also said "*It's just a term, so why would I disagree or agree? He just uses the words. I don't have an opinion on it".* Looking at the transcripts it is fair to say that the interviewees did not fully understand the Napier and Power notion of measurement separability. The unit of account refers to the level of aggregation at which an economic resource would be disclosed in the financial statements: individually or as a bundle? It follows that measurement separability should not determine a unit - of - account because the process is obviously measurement - based, not recognition - based, and that most of the evidence so far has been recognition - based (see section 4.2.5.6).

Figure 5.3 line (21) 'measurable asset' is an axial category. There is a difference between 'measurable asset' and 'asset measurement', as explained by AcSB member (1) : "*I guess a 'measurable asset' is the characteristic of whether the asset is capable of being measured, whereas 'asset measurement' seems to me to be the process of doing the measurement"*. Similarly, AcSB member (2) 's comment was "*Asset measurement is what value and by what means you put in value on the asset. I guess a measurable asset is one that's capable of being measured".* IASB member (2) and IASB member (1) also supported this assertion. IASB member (2) said "*the act of measuring is different from the act of putting it in the financial statements."* While IASB member (1) said "*It has to meet the definition, and it has to be measurable or I wouldn't know what to do with it!"* Though not referred to by the interviewees another distinguishing feature between a measurable asset and asset measurement is that the latter may be at a zero value where the 'asset' is held in order to prevent competition but of itself it has no capability to produce income or where that capability is deliberately constrained for this purpose.

Figure 5.3 line (22) ‘financial measurement’ is a property of measurable asset. A measurable asset should be characterised by assigning a financial figure to it, that is, an asset measurement for accounting purposes. AcSB member (1) and AcSB member (2) (see above quotations) were clear in distinguishing both terms and the linkage, I would argue, is axiomatic. One of the limitations of this research, though, is that it does not address measurement bases because the focus is directed towards the asset recognition or pre - measurement.

Figure 5.3 line (23) ‘measurement bases’ is a dimension of financial measurement. AcSB member (1) ’s commented *“There may be all sorts of ways we can faithfully represent something, and there may be a range of the measurement bases we can use, and that gets us across into the other bit of the conceptual framework that we have not developed yet which is what are the suitable measurement bases? If you go through the FRS today, there is something like 29 different measurement bases that are used. We would like to limit those and figure out which one is suitable and which is not, but we have not got there yet”.* It follows that the dimension for asset measurement ranges over, potentially, 29 different types of measurement bases. It seems likely too that there will be groupings within that range of measurement bases, for example, ‘entry price versus exit price’ or ‘transactions - based versus valuations - based’ and so on. As such, these groupings are really sub properties of the process of financial measurement more properly addressed in the previous section (line 22), but avoided for the reason given in the previous line number.

Figure 5.3 line (24) ‘observable vs. predictive measurement’ is a property of measurable asset. An observable measurement is the one that is restricted to the present not the future (Vehmanen, 2006). Some of the existing measurement bases are future based measurements, which are predictive, not observable. So, I asked IASB member (5) *[what are your views on* *the assertion that whatever measurement bases, or bases are used, they should be observable rather than predicted methods, like fair value for example*. He replied *"In other words, I should have a hierarchy". [So do you think that, when we stand at this point, we have to know whether this asset should have an observable method?] "Remember I said a hierarchy. A hierarchy doesn't tell me I can't use other methods like discounted cash flows. To estimate fair value, I do that all the time, especially for liabilities… I have to have some other method. But what I'm doing, I think, is always trying to approximate that notion of fair value and initial recognition, that's in my mind".* IASB research fellow also mentioned *"I think it's a grey scale. I don't think you can really say that you can have a market place for a financial instrument. The market price is itself what the market thinks the future cash flows will be. It's more observable than your own estimate of what the future cash flows will be, and there's a grey scale between something traded on a market and something that you're valuing yourself. I think it's not an either / or".* Accounting expert (3) also commented on this by saying *"It depends on what is the measurement basis. If the measurement basis is fair value, I believe it should be based on observable input and observable outputs. There are a huge number of different measurement attributes. It could be that… To answer this question on a general basis doesn't really make sense. If we talk about fair value, I believe that we need to have some observable…When I said I agree, I meant in reference to fair value. [So this means it depends also on the measurement we are going to use]. Yes".* UK ASB member also commented on this by saying *"Personally, I'm not against valuing in terms of future cash flows, looking at present value, because that's what we do with impairment tests, for instance. I think there are properties of measurement that mean that if I felt that there was equal value in having a market price and an estimate, I'd probably go for the market price because of reliability".* Accounting expert (4) said *"You're making a difference between the words observable and predictive, but if we're into subsequent measurement it's all predictive* *really. You have a number of hypothetical events, don't you? You could hypothetically sell you asset and then have an exit price, you could hypothetically buy it again and you'd have a net replacement cost, or you could use it and then you'd have a present value. You are looking forward and then you have discounted cash flows. They're all predictive. I think what I was getting at is the Americans don't like present value and the British, Baxter, add value to the business, which is a much better rule than the fair value rules. I'd follow ... the value to the business ... that was written in the 1970s when we had high inflation and current cost accounts. Where there were assets that you wouldn't replace, that nobody would want to buy, but had a high economic value, value to the business gave those assets a value. A typical example is a railway tunnel. Nobody wants to buy a railway tunnel, it would cost you a fortune to remake it, and, the value for the business it would come in at its present value. That is a consistent measure. Its value to the business that's being used as the measure, but within that measure there are three discrete other measurements. It's similar to the law of cost and net realisable value that we see with inventories. People are quite happy with that. When you put value to the business to the Americans, they can't stand it because they think it's too subjective and people can put discount rates in and things. Value to the business is a prudent framework, anyway. It's the law of the replacement cost to x, where x is the higher of the sales value, net realisable value, and the present value. I'm a value to the business person".* There are some supportive views for the idea that a measurable asset is one where any related measurement should be based on observation. That said, though, any observation is conditioned by the choice of measurement basis, for example, an observation of the market place using entry or exit based measurement method? Additionally, if one, say, chose an exit based measurement then, unless the asset in question was actually sold (observably so), the measurement would have to be predictive rather than observable. So, to repeat, as Accounting expert (3) succinctly put it: *"It depends on what is the measurement basis. If the* *measurement basis is fair value, I believe it should be based on observable input and observable outputs.* Of course, the chosen measurement does not necessarily have to be market based because the property of observable and predictive measurements can be located on a dimension that can either be market based or entity based, addressed next.

Figure 5.3 line (25) 'entity - specific versus market - specific measurement' is a dimension of an 'observable versus predictive' measurement. To repeat, a dimension of 'observation' is that the visual verification can be, for example, of an entity - specific transaction or a current market value where such a market exists. This dimension may be referred to as an external visual verification. But there is also the possibility issue of an internal visual verification of compliance with an accounting rule where that rule specifies the steps to be taken in a measurement process as with, for example, impairment reviews. All the interviewees' comments, though, were externally based. IASB research fellow commented on this "*I think it's a grey scale. I don't think you can really say that you can have a market place for a financial instrument. The market price is itself what the market thinks the future cash flows will be. It's more observable than your own estimate of what the future cash flows will be, and there's a grey scale between something traded on a market and something that you're valuing yourself. I think it's not an either / or".* UK ASB member commented "*In terms of the measurement properties of the number you're getting, it depends very much on reliability to me. Reliability is something that has been cut out of the framework now. It's called representational faithfulness. As an advocate of fair value, I'd say the only thing that's representationally faithful is the market price".* IASB member (3) mentioned "*"...in many cases most of our constituents use an entity amount rather than market - amounts. It really depends on what you want to show".* IASB member (2) also said "*...Now to recognize it in the financial statements what number do I use?…You want to know* *how the market figures it".* With the same view, IASB member (1) 's comment was "*"The market place trades these things for a thousand every day, and we can observe that. We get over here, and it happens to be mine. This says that I want to measure it as $ 1100 because when I use it, I use it better than you do. That's not an asset issue. That's a measurement issue."* And AcSB member (1) 's comment was "*We say for certain things we think there is a market and they're suitable to recognize. If you look at IAS 38 for intangible assets, you can see things like brands and the like that they say no we would not allow to recognize because there is no enough market specific measurement. So the entity can calculate, so that's not good enough. I'm in the market specific camp".* IASB member (4)'s comment was *"It is an entity perspective...you can still measure that asset on a fair value basis by saying: if I could exchange it, if I could, what would a market participant pay me for that asset given its existing location and condition. So, yes, I think that the market perspective is important in determining whether or not you have something of value…If I couldn't do that because there is no market for this – it's a unique asset or whatever – I could still estimate a value by looking at what a market participant would pay were it were a transferable item".* Accounting expert (3) also mentioned *"If you have an equity instrument, for instance, a stock or a share, then you can just go to the stock exchange, observe the price, and that price is the current price, and the price is based on what the market expects of future cash flows from that company".*

Figure 5.3 line (26) 'additive' is a property of measurable asset. An additive measurement is one where 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 is not the case if only because of inflation. Therefore, all measurement methods are inherently non - additive: a mixture of nominal dollars / pounds at different points in time that are adjusted so that they can be taken to be representative, for example, of current values. AcSB member (2) said that "*It comes back to thinking whose welloffness. Why should I measure nominal dollars? [Which means we should have a good measurement scale]. Yes. Also, it depends what you want to use it for. Suppose you want to do it for taxation purposes, redistribution of wealth… I think if you do it for taxation, it almost immediately drives you to a purchasing power version of financial capital meaning, if you want it to be fair. If I invested twenty years ago, and you invested yesterday, then if we do it in nominal dollars, the measurement of our change in welloffness is horribly skewed. Yours is perfect. It's only one day of inflation out. Mine is just… I may actually be deep in the red. Those issues just get glossed over. It would be interesting if we addressed them. I think the fact that we always claim information allows us to get away from all these fundamental income measurement things, even though, when we go to do it, we sort of go to this hard economic facts of assets and liabilities, and I guess the best income measurement. But, we're not really doing income measurement, we're doing information. I find that sort of weird circle is not a circle. It just doesn't join up. I find that a little bit hard in the way it guides us"* (see section 4.2.7.2).

As AcSB member (2) indicates, adding nominal dollar to nominal dollars is additive ($ 2 + $ 3 = $ 5) but not when those dollars are taken to be representative of, what he refers to as, *"welloffness"* because of the vagaries of supply and demand over time. It is the attempted disclosure of *"welloffness"* that perhaps causes AcSB member (2) to say *"we're not really doing income measurement, we're doing information*". This is because an un-"*skewed*" income measurement would ideally be done at one point in time using one measurement basis for all assets, whereas, in practice, multiple measurement bases and time frames are used and added together even though they are inherently non - additive in nature. Now, the choice of a single measurement basis would be a political policy choice outside the scope of this thesis.

That said, if the choice were to be some form of ‘current’ value then, by extension, ‘time’ becomes pertinent to the exclusion of the ‘past’ and ‘future’ time frames. Thus, the accounting representation of “*welloffness*” would at least be located in a single time frame. However, the interviewees were unsupportive of this argument. Consider that UK ASB member said “*The recognition should be of the past and present, not the future. The future may have a bearing on present values. If the future prospects look bad, maybe it’s sensible to write it down in a prudential way. That’s against the IASB’s revision of the framework, though…”.* In contrast, IASB research fellow said “*I don’t know that ‘current’ means anything in that context. I think ‘current’ is a representation of the ‘future’. ‘Past’ is separate because ‘past’ is whatever value is attached to something in the past. A ‘current’ value is what we currently think it will be worth, given our expectation of the future… We can say with the greater or less certainty whether our current valuation is reliable or not. That’s what it is trying to do.”* Accounting expert (3), however, argued that the separation of the past from the present from the future is not as clear as one might expect: “*I’m saying that I do not think we can have one measurement basis. I think we need a mixed measurement basis. It depends on circumstances. Under certain circumstances it may be appropriate to use fair value, defined as an exit value, as the measurement basis. Then reliable prices…with respect to the discussion, whether pricing should be current, or future, or past related, to me that makes no sense because if we’re talking about fair value then we’re talking about the current value, but the current value reflects expectations about the future. I think this is just rhetorical.”*

It is fair to say that although I’ve included ‘additive’ as a category at the axial stage, it seems likely that it will have to be deleted at the selective coding stage because the link from the ‘additive’ box to the ‘measurable asset’ box in Figure 5.3 is a tenuous one to make – see comments in section 5.2.3 later on in respect of line 57.

Figure 5.4 line (27) 'an asset's contestable social construction' is an axial category. It can be induced from the following comments that a defined reality, in this case, the asset definition is a contestable social construction. AcSB member (1) said *"we are going to hit examples where we have got something that meets the definition of an asset, and we do not know how to attribute a number to it, and we can't put staff on the balance sheet that do not have numbers. It doesn't add up. So that's why, personally, we are going to have circumstances where there are things that we would not be able to put on the balance sheet".* IASB member (1) supported the "contestable" assertion as follows: *"They won't reach agreement. I think what they will come up with will be the definition. What they will stumble over is whether there should be recognition criteria. The obvious answer is that if you meet the definition you record it…but they [board members] are not going to be willing to do... they're going to frat about that".* IASB member (4), on the other hand, is perhaps more flexible about what would comprise an asset: *"I think if you have a very robust definition of an asset, and you are very careful to identify the essential components of an asset, if you can say to yourself that it is an asset because it is an economic resource, and you have the present right to that resource – it is not something in the future, it is now – then the asset exists. So now since it already exists, why do I subject it to any other considerations than measuring it"* (see section 4.2.1.2).

IASB member (5) was critical about the distinction between asset definition and asset recognition. He said "*The only other people who do it the way we do are diplomats when they talk about recognizing a country, you know, as if mainland China wouldn't exist if you didn't recognize it…I think there's a lot of 'tension' around recognition. Intellectually and logically, anything that meets the definition of an asset should be recognized in the financial* *statements".* One can see in these comments that the construction of financial reality here is a defined one but it is clear from these comments that it is either an imperfect basis for recognising assets or a flexible one depending on one's view as to what complies with the definition of an asset and therefore should or should not be included on the balance sheet.

Figure 5.4 line (28) 'conceptual primacy' is a property of an asset's contestable social construction. There are essentially two ways in which one can portray economic reality in respect of assets in the accounting domain. First, 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. 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 second approach is to hold the balance sheet as the dominant statement, specifically, that it should reflect the increase in total value of net assets between two balance sheet dates. It is the second approach that was preferred by most of the interviewees. IASB member (1) said *"Assets are real, liabilities are real. Everything else is dreams of accountants." [So you agree that the asset - liability view has conceptual primacy…?] "Yes, nothing else works."* UK ASB member mentioned that "*If there are no assets, there's no business".* AcSB member (2) said "*the asset one comes first because the liabilities one is a mirror of the asset one".* AcSB member (1) supported the same view "*If I am going to develop a model of measuring the wealth of my organization, and the changes in the wealth of my organization, the logic of where to start is by looking at the things I've got, and that's the 'assets'. There are people definitely who argue about revenues - expense view. But then if you challenge them to ask them how they define revenue and expense to start with, that view, to my knowledge, no one comes up with workable definition of revenues and expenses that does not draw back on asset and liability".*

IASB member (5) said "*Asset primacy is the whole basis of our conceptual framework......, if you think about it, you can't start any place else"*. Accounting expert (4) also said "*I think it's a good place to start. You then define a liability as a negative asset, and expense and income become changes in assets and liabilities. Because we live in a capitalist society, capital becomes a residual after the liabilities of a business"* and finally IASB research fellow said "*Everything follows from the definition of an asset, and that gives its primacy"* (see section 4.2.1.3).

Figure 5.4 line (29) 'Asset definition occupies a central role in asset - based recognition process' is a property of an asset's contestable social construction: IASB member (2) said "*I think that the definition of an asset is central",* IASB member (1) also said "*It's the only real thing. There isn't anything sacred about that".* IASB member (4) mentioned "*The definition of an asset is critical because that is the filter, if you like. That's what you must go through for something to be recognized as an asset. That is critical".* When I asked AcSB member (2) "*[For a definition of an asset, it appears to occupy a central role in accounting recognition and measurement of assets. Would you agree?]* his answer was "*Absolutely".* AcSB member (1) also answered *"Yes! Absolutely, again as I said this morning, you have to start somewhere in preparing financial statements, and no one comes up with another model that starts anywhere other than the 'assets'. I think that it is the intuitive place to start".*

Figure 5.4 line (30) 'some assets are not recognized' as a property of an asset's contestable social construction: In constructing economic reality the interviewees were aware that an asset may exist but that at the same time it would not be recognisable for accounting purposes. UK ASB member said in general "*We have to estimate whether they exist when it comes to these uncertain things like intangible assets and provisions for future…* "*I think probability of existence is the point. Things don't exist or not exist, unfortunately. We* *have to estimate whether they exist when it comes to these uncertain things like intangible assets and provisions for future".* IASB member (5), to repeat, drew upon the analogy of recognising a country: "*The only other people who do it the way we do are diplomats when they talk about recognizing a country, you know, as if mainland China wouldn't exist if you didn't recognize it…I think there's a lot of 'tension' around recognition. Intellectually and logically, anything that meets the definition of an asset should be recognized in the financial statements".*

From the interviewee comments there are a number of reasons why some assets are not recognized in the accounting construction of economic reality. For example, where the 'asset' is a human being, where the 'assets' are internally generated by a business, where some 'assets' are expensed instead.

… where the 'asset' is a human being. In this regard it is reasonable to argue that an asset definition should, ideally, be as effective in determining what is…, as well as what an asset is not. As IASB member (5) said "*A definition, if it's a good one, is as clear about what it excludes as about what it includes… A definition has to both describe what it is and what it is not.* So, for example, a human being can be an economic resource that is capable of generating future economic benefits but it is not an asset for accounting disclosure purposes for reasons outside the scope of the asset definition. As UK ASB member said "*It can be done, but it doesn't get into the balance sheet because we don't have slavery and we don't own these people. They can leave if they want."* AcSB member (1) added *"we are going to hit examples where we have got something that meets the definition of an asset, and we do not know how to attribute a number to it, and we can't put staff on the balance sheet that do not have numbers. It doesn't add up. So that's why, personally, we are going to have circumstances where there are things that we would not be able to put on the balance sheet.*

Because of that, we will have to deal with them in some other way". Accounting expert (4) also mentioned *"We could have lots of assets that don't get onto the balance sheet. It's very often the directors say 'Our greatest asset is our workforce', and we thank our work force for their continuous work for us. The workforce meets a number of criteria, I would have thought. Their knowledge, experience and training represent a huge asset, which is currently off balance sheet. It does bring us benefit in the future. You could argue that we have invested training, and time in the past, and they have some cost, but it doesn't get into the balance sheet because it's too unreliable. I think the more recognition criteria we have, the better. The more advice we have, the better. I think".*

… where the 'assets' are internally generated by a business.

IASB member (1) 's comment "*We do recognize some [intangibles] you know: results of research and development gets capitalized…internally generated goodwill usually doesn't, but R & D does. Brands do in some places…That's an accounting standards issue. It doesn't mean they aren't assets. Definitionally, you can't argue they aren't assets".* AcSB member (1) added *"If you look at IAS 38 for intangible assets, you can see things like brands and the like that they say no we would not be allowed to recognize because there is no enough market specific measurement. So the entity can calculate, so that's not good enough. I'm in the market specific camp".* IASB member (2) also mentioned *"I would like to see intangible assets recognized in the financial statements. I do not see any reason for why not?"* IASB member (4) also said *"I have written an article recently that talks about intangibles. It raises that point. It is called the fair value handbook. If something meets the definition of an asset, it doesn't matter whether the 'right' or other access you have to it was established by an exchange transaction or by some event. If it meets the characteristics of an asset, it should be recognized".*

… where some 'assets' are expensed instead.

A debit can only be an asset or an expense (unless it is deducted directly from capital). Those debits that are not recognized as assets are, therefore, by default rather than by nature, recognized as expenses. Accounting expert (3) comment is pertinent in that regard: "*My point is that these definitions are vague, unclear, and they will not be effective in discriminating assets from expenses. It introduces a lot of concepts and ideas. They're vague and it's difficult to apply them to any circumstance".* IASB member (5) said "*A definition has to both describe what it is and what it is not. That's to the extent that a new definition doesn't do a good job about defining what it is not. That's going to increase the tension about needing to have a separate recognition criteria. Now subsequent measurement – what we're talking about now is when do we recognize changes in an asset."* Finally, UK ASB member said "... *If you have recognition solely by meeting the definition, the question then is how much certainty does you have to have before you think it's the definition".*

Figure 5.4 line (31) 'faithful representation of economic reality' is an axial category. Some interviewees appealed to the existence of an 'economic' benchmark by which to construct a faithful representation of economic reality. IASB member (4), for example, mentioned the following "*I think you have got to be able to faithfully represent the economic resource that you have the present 'right' to".* IASB member (2) said "*'Representational faithfulness', you have to find a depiction that is complete, neutral, free from material error, reflective, depictive, economic substance of the underlined transaction, event or circumstances."* IASB member (5) added "*the fact that we don't recognize things that are relevant, that we could come up with a faithful representation".* Finally UK ASB member said "*I'd say the only thing that's representationally faithful is the market price…Measurement is one of the recognition criteria at the moment. If you can't measure it* *reliably, you don't recognize it. It isn't true that everything you think you can measure, you'd recognize, because it may not be reliably measurable…"* (see section 4.2.6.5).

Figure 5.4 line (32) 'reliability' is a property of a 'faithful representation of economic reality'. One can see from Geoff Whittington's comment, immediately above, that reliability is a measurement attribute which is avoided herein because this thesis is about asset recognition or pre - measurement. However, as IASB member (2) commented, reliability is more broadly based: "*A measure of reliability is faithful representation…that is the reason for the change in the words. It is the same. It should be the same concept but many people misunderstood the word 'reliably'".* However, AcSB member (1) has the opposite view, which states faithful representation is a broader concept than that of reliability. He said *"Assuming that there is a reliable measurement huddle, you are going to say 'I do not know what number to put on there? And then you start to say how can I faithfully represent it? So if I can not get good enough number for the balance sheet, what is the disclosure that I am going to give about it? ….and when I think about faithful representation, it is not just putting a number on the balance sheet. It is about telling the whole story about the thing you have got".* UK ASB member also mentioned the following to support the importance of reliability "*Reliability is something that has been cut out of the framework now. It's called representational faithfulness".* As Accounting expert (3) said "*In my view, you definitely need to have reliability. If faithful representation is a better word (which it is not)… if they think so then that's fine, but do not change the content. Also, include it as a recognition criterion because we cannot have totally unreliable information in financial reports if it's going to be useful".* When I asked AcSB member (2) *"[Today when Professor Hague was discussing the new working proposal for the new conceptual framework for financial reporting, he said there's going to replace reliability by representational faithfulness]"* he said "*That's moving even further towards these economic facts. In which case, why don't they say 'If that's the goal, they almost go back to an income measurement goal.' Then you go back to whose income and whose welfare are you trying to measure?*"

Figure 5.4 line (33) 'qualitative characteristics for financial reporting' is a property of a 'faithful representation of economic reality'. Financial information disclosed in the financial statements should satisfy the IASB's qualitative characteristics. IASB member (2) mentioned "*Everything that goes into the financial reporting should have the qualitative characteristics…Anything that meets the definition of an asset and can be measured reliably and has the qualitative characteristics that we come up with in the new framework, which is basically the same as faithful representation*". Supporting this view IASB member (5) mentioned "*I think they might. I think they might operate as our recognition criteria. We would say that, given the opportunity to recognize something as an asset, given the fact that it meets a definition, then we would ask ourselves, well, having said that, does recognising it meet the decision usefulness, and all the other qualitative characteristics, and the objectives. That might function as recognition criteria*". AcSB member (1) also said *"I think your objective is to return it back to the qualitative characteristics for financial reporting. You want to faithfully represent that thing you have got"*. IASB member (4) mentioned *"I think you have got to be able to faithfully represent the economic resource…It is still important to have the qualitative characteristic. That plays an essential role in the determination of the quality of information that could be provided to users"*.

Figure 5.4 line (34) 'relevance' is a property of 'faithful representation of economic reality'. Relevance is another property for 'faithfully representing economic reality'. IASB member (2) mentioned "*If it is an asset of the entity then the question is does it meet the qualitative characteristics? Is it relevant? Well, if it is an asset it is relevant to be an* *asset…the user should know that”.* IASB member (5) said “*The difficulty is that it runs smack into the wall of the fact that we don’t recognize things that are relevant, we could come up with a faithful representation”.* UK ASB member said “*I think you need a definition first of what an asset is, then you need a criterion that says what level of certainty knowledge am I going to demand before I recognize it, and also at the moment, the other measurement criterion is how reliably can I measure it?....... It’s value relevant information that is disclosed but not part of the accounts. The accounts double entry system has to have reasonably reliable information in it”.* IASB research fellow also mentioned for my question *“[So you prefer relevant more than representational faithful]. Yes”.* Accounting expert (4) added *“What we’re saying is you can have an asset that meets the definition of an asset, that meets the qualitative characteristics, which is relevant, and represents what it is, but still fails to meet separate recognition criteria because separate recognition criteria they will be based on reliable measurement”.* We can see, again, that relevance has a recognition (IASB member (5)) and a measurement dimension (UK ASB member) to its nature.

Figure 5.4 line (35) ‘neutrality’ is a property of a ‘faithful representation of economic reality’. Neutrality is a property of faithfully representing economic reality as a replacement for the concept of conservatism or prudence, based on the argument that deliberate understatement of value is as undesirable as its overstatement. IASB member (4), for example, mentioned “*You had a lack of neutrality in accounting. Liabilities would tend to be recognized in circumstances, but assets might not. So, assets would have to meet a higher hurdle. So some of us said, when we started developing the conceptual framework, no, that is wrong, we must be neutral. So, let’s have a set of recognition criteria that treat assets and liabilities equally”.* Supporting this view IASB member (5) said *“Getting rid of conservatism is a good thing because it stunts your growth, as we say in America”.* And again Accounting expert (4) supported this view "*You get rid of conservatism because it's a bias. We want to remove bias from accounts, and conservatism is a deliberate downward biasing"*. UK ASB member, on the other hand, said "*I think that's just wrong. My example of the own credit risk is relevant to that. If somebody owes me money, that's an asset. I would write down that asset if I thought they weren't going to pay me. I'd make a provision, you see. I'd be treating it differently".* Accounting expert (3) supported UK ASB member's view in response to my question: "*[neutrality means there is no difference with respect to liabilities and assets?]. I agree. In principle, I agree…But in the real world, where we do have uncertainties within the fair value estimates that we provide, we do have uncertainties within a lot of estimates that we provide, I'm not sure we should just…Recognising the stewardship objective: I'm not sure that neutrality should overrule any form of conservatism".*

Figure 5.4 line (36) 'going concern' is a property of 'faithful representation of economic reality'. IASB member (5) was not in favour of the going concern concept. He said *"I would not include the going concern concept in the framework at all. I do not believe that it is a useful addition. If you look at the FASB's framework, going concern is a footnote that refers to audit literature. That's where it should be in ours. It is not a useful feature of an accounting framework. Going concern is an excuse. I think we have to be broadly honest here. Going concern is an excuse that accountants use when they don't want to do something. It's just not a useful conceptual basis for anything."* Accounting expert (4) took a more general view: *"I think going concern assumption is about the whole business".* On the other hand, UK ASB member said the "*Going concern concept is very important. We've got to have a basic concept of what we're assuming. It's an assumption for the whole of the accounts. It's fundamental. It's not just for recognition. It's for measurement as well. Your measurement criteria would change drastically".* Accounting expert (3) also supported ‘going concern’. I asked him “*[From your point of view, what are the users’ needs in practical life?] Going concern”.*

It would appear that there is some ambivalence towards the inclusion of going concern in the qualitative characteristics. As regards its relevance in respect of a ‘faithful representation of economic reality’, then it probably depends on business circumstance, for example, whether liquidating or not. For example, IASB research fellow said *“Going concern feels a bit redundant to me ...The reason why I say it feels a bit redundant is if you go through an asset recognition and measurement process and you end up with a solvent entity then you end up with positive capital...The presumption that… If you mean going concern in the sense that the presumption is that you’re creating accounts for the business as it continues to operate, rather than creating liquidation values, I absolutely believe that’s right.... I don’t think it’s quite the right way to think about it. It doesn’t quite fit to me. I think the notion of management intent should be the basis that makes redundant the going concern concept. If you have assets that are classified as discontinued, those parts of the business are not a going concern, or at least they’re a going concern to whoever you’re going to sell them to”.*

That said, I would argue that there is one important link to the importance of separability raised by UK ASB member. He said, “*It has to be separable [the asset], but you understand that it would be possible, if you measure at the fleet level, to measure at the individual level [because they are mutually exclusive?] In that case, if the way the entity does business suggests that you measure at a higher level, you can. My lower limit would be that it has got to be separable as a minimum requirement [thus strengthening the role of separability in the recognition process??] I would aggregate but I wouldn’t aggregate to the level of the whole business, unless I was selling the business. It wouldn’t be a* going concern*. I’d be saying the value of this business is what I can sell it for”.* So, it can be seen that the going concern concept does affect separability, in particular, the level of aggregation according to whether the business entity is solvent or not, also, the nature of that going concern.

Figure 5.4 line (37) 'documentary and / or physical' is an axial category.

AcSB member (1) said *"[So do you agree that a non - transaction based or internally created intangibles, which can generate future economic benefits should be recognized in the balance sheet?] That's my starting point. Yes! Definitely. [Also the case where it is based on a documentary basis, even if it is non - transaction based]. Yes! If I can see that I have got something I have created, like drugs and things, then I would expect to start by saying that ought to be going on my balance sheet? [This would return us back to legal rights] or …Yes. It may be legal. If I've got it, I may have patented it, but that's partly what I didn't dwell on today in the tail end of the asset definition, where we talked about having access to the thing, where I may not have patented it, but I've got it in my safe locked away somewhere. I've physically got the thing. That also creates an asset. [So do you agree that nowadays the transaction based should be expanded to include a transaction - based and non - transaction based]. Yes. That's, again, when I was talking this morning about not focusing on the past events'… It is unnecessarily to find a transaction, as long as you can see the thing is there now and that the entity's got it.* Though it is, of course, possible to have a verbal transaction, usually, at some point, that transaction is recorded if only for accounting, tax and audit purposes. However, AcSB member (1) raises a couple of interesting points that centre upon non - transaction based asset recognition, specifically, those intangible assets that are internally generated by a business as well as those intangible assets that, paradoxically, are made physically secure, for example, a patent letter, the secret Coca Cola recipe, etc. The point here is that, potentially, one can expand the basis for the accounting recognition of such assets beyond the documentary evidence that typically attaches itself to a transaction to include any artefact (man - made object). For example, UK ASB member said *"[If we have these recognition criteria within the environment of non - transaction based, we can recognize it]. Now we get to the transaction issue. I'm keen on the idea of transactions and events, but not just transactions. I think that's too narrow…"* Similarly, IASB member (2) mentioned *"[We need to broaden the area or the meaning of transaction in nowadays environment]. I do not think that we should have to have transactions. Why do we have to have a transaction? What we were about if you read this [proposed CF] it is about economic events, circumstances and changes in them. Now, it has nothing to do with a transaction. A transaction is only one type of economic event, circumstances. So, this new conceptual framework is much broader than transactions already…"*. IASB member (5) agrees but says others (he points to financial analysts) may not: *"We did an agenda proposal on intangibles, and the response from financial statement analysts was overwhelmingly negative. This was not from twenty - one year old brokers ...[You disagree with the non - transaction based]. I think there should be. It's just that nobody wants there to be."*

It is axiomatic that a social construction needs to be 'seen' as such, that is, the construction needs to be physically recognized. Thus, an intangible asset needs to be physically represented somehow – an artefact. The policy issue, however, relates to the type and acceptability of the artefacts for accounting purposes. For example, an invoice and patent letters are both documentary, physical artefacts but only former is guaranteed to included in the financial statements.

5.2 The Process of Induction

The process of induction typically starts with observation and, in my case, this was interview based. The process then moves on to finding patterns from the results of those observations or interviews (in my case) as presented in the open codes. Thereafter, one seeks to establish a tentative hypothesis from those patterns which I have expressed here in the four axial concepts in Figures 5.1- 5.4, combined. Finally, a theory is presented from the hypothesis, which I will address later on at the selective coding stage as one that is 'grounded' on the evidence in support of it.

To some extent, each of the four axial concepts is already deductively grounded on the content of some of the open codes (for example, Figure 5.1, lines 1 and 3) but the richness of the data is such there are many more open codes than axial concepts and not every code can be directly linked to an axial concept. Where they exist, I have already tried to make sense of most of the indirect linkages through the identification of the subcategories, properties and dimensions in Figures 5.1 - 5.4 but what I need to do, here, is to present and justify patterns of codes that potentially give rise the axial concepts. I say 'potentially' because there is an unavoidable element of researcher bias in the construction of these patterns and the supporting evidence ranges from being strong to weak. In this regard, I am now going to focus on the central columns in Figures 5.1 - 5.4 which I induce from constructed patterns of the surrounding codes in the left and right hand columns of Figures 5.1 - 5.4. I, respectively, address each axial concept in Figures 5.1 to 5.4 sequentially in the next four sections: 5.2.1 to 5.2.4, below.

5.2.1 Rights based

Since the existence of economic resources (land, materials, labour etc) is undeniable, what matters to most business entities is whether they have a right to control some of them for the purpose of generating future economic benefits. That right is often established by contract, a legal basis, but it does not have to be, for example, longstanding custom and practice.

However, as IASB member (2) rightly points out: “If they were not enforceable [rights] you really don’t have anything” (Figure 5.1, line 45 is justified). A key word here in that regard is ‘you’, that is, ‘your’ entity specific (and ideally) legal right to control an economic resource. As Accounting expert (4) succinctly put it “We don’t put other people’s assets on our balance sheet” only those specific to the business entity (Figure 5.1, line 39 is justified). That said, if economic resources were plentiful and inexhaustible then, prima facie, it may be argued that it does not matter which balance sheet they appear on. It follows to some extent that they appear on ‘your’ balance sheet because economic resources are scarce according to varying degrees of scarcity. As UK ASB member succinctly put it “I wouldn’t put the air in the balance sheet because it’s not a scarce thing” (Figure 5.1, line 42 is justified). However, the counter - balance to this argument is that people (human assets?) are plentiful and self - generative and yet, in general, they do not appear on the balance sheet. It is, respectively, the issue of involuntary and voluntary ‘control’ that ties these two arguments together. In the case of scarce resources the business entity wants to control an asset to the exclusion of others because, not unreasonably, it will undoubtedly want most or all of the economic benefits for itself. In the case of plentiful human resources the business entity also wants to control them to the exclusion of others but, despite contracts of employment, it cannot exercise that control. As Accounting expert (4) rightly reminds us, “we don’t have slavery” and the ‘exclusion of others’ would probably require solitary confinement (Figure 5.1, line 46 is justified). One may extend this argument further and talk about asymmetries of power (Figure 5.1, line 41 is justified as follows):

(a) People have power to act existentially and therefore the exercise of control by a business entity is generally of a voluntary nature.

(b) Objects, unless possessed of artificial intelligence, generally have no power and the exercise of control over them by a business entity is of an involuntary nature.

(c) (a) and (b) can be merged where the power of a party to act existentially is curtailed by a business entity in a specific circumstance, that counter - power being vested in a legal document or object held by that business entity (and is often capable of being transferred). Whilst the document or object does not necessarily stop people from doing whatever they want to do, the legal consequences may be too severe to entertain a prohibited action.

It is item (c) that is particularly pertinent to the context of this thesis because it ‘opens up’ a debate to the effect that the recognition of an asset for accounting purposes is more than its capability to produce future economic benefits. Why? Because, as UK ASB member indicates, it is possible to view balance sheet assets as “They’re still rights, or powers left at the balance sheet date”. One of those powers is the power to generate future economic benefits. However, it is a power that can be curtailed in the manner indicated in point (c) above. And therefore, the source of that power is centred upon the recognition of **rights** first and foremost, particularly legal ones. I will return to the issue of rights later on but first, I need to explore the linkage of economic resources to economic benefits because this is at the heart of the accounting recognition of assets in that, for instance, it is part of the definition of an asset (IASB, 2001). In that later regard it forms the bedrock for the argument that an asset *must* produce them for it to be recognized as an asset for accounting purposes. But, as I will show, it is not the only right.

Whilst there is an obvious cause and effect relationship between economic resources and future economic benefits (Figure 5.1, line 44 is justified), it is not an automatic one. Hence, whilst the above introductory assertion as to “what matters” (generating future economic benefits) may be true in most cases, there are nevertheless many examples, as with pollution control assets, where the linkage of ‘economic resource’ to ‘economic benefit’ is indirect at best. Additionally, the distinction between an apparently expired resource and latent economic benefit may simply be a question of time, scarcity and price, for example, bringing nineteenth century Cornish tin mines back into production. Thus, in both cases, where the link between an economic resource and economic benefits is established there is only the probability, not the guarantee of future economic benefits (Figure 5.1, line 47 is justified). UK ASB member said “I think you do need levels of probability to decide”, however, all that effectively does is to structure an inherently subjective assessment as to the likelihood of future economic benefits (Figure 5.1, line 48 is justified). And it is at the boundary of an asset at an expense where the probability assessment is particularly acute – the location of intangible assets – because of the absence of a physical resource, yet the probability of future economic benefits.

The absence of a physical resource for intangible assets begs the question in respect of my axial category ‘the right to control economic resource’, *what economic resource?* And, if one is not controlling anything physical, what is one controlling? I would argue that the only logical candidate in this regard is the right to control human actions, notwithstanding the earlier proscription in respect of slavery. This right over actions may be viewed as possessive, as with those rights presented as an axial sub - category in Figure 5.1. So, for example, the entity has the right of action to use an asset as security, to settle debts, to transfer it and so on. Many of these rights, though, are usually taken - for - granted when one purchases a tangible asset. As IASB member (4) said “the evidence is, because of the ‘right’, I can sell it, I can use it, I can pledge it, use it as security and so on” (Figure 5.1, line 43 is justified). However, the right over action may be a preventative one too where, as IASB member (4) said, “the right may be created through preventing others to access your assets" and thereby one can claim exclusive use for oneself instead (Figure 5.1, line 40 is justified). Many intangible assets are of this ilk, for example, patents, trademarks, copyrights and so on. Two points are noteworthy. Where this arises the "economic resource" is the "right" and vice versa – a conflation. In other words, in respect of intangible assets, the axial category descriptor in Figure 5.1, that is, the 'right to control economic resources' becomes circular, that is, the 'right to control a right'. In one sense this is a good thing because it emphasizes that asset recognition is, first and foremost, about the recognition of rights (Figure 5.1, line 38 is justified) and those rights are far more broadly based than just in respect of future economic benefits. In that sense, the axial concept itself is also justified.

5.2.2 Separable in nature

Separability was presented to the respondents as:

All the individual assets of a business are separable from each other when it is possible to aggregate or disaggregate them 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.

The first point to note from this definition is that separability may be viewed from a recognition and a measurement point of view, though it is self evident that a separable asset should be recognized prior to its measurement, otherwise one cannot be too sure of what one is measuring (see Napier and Power, 1992 for an opposite viewpoint). In the context of this thesis I am primarily concerned with the separable <u>recognition</u> of assets. The second point to note is that one may start with the individual assets of a business and aggregate them to equal the whole of the assets or, conversely, one may start with the whole business and then disaggregate it into the sum of its individual assets. Both exist in the accounting domain and, therefore, it is possible to show a unit - of - account where the asset unit might be, say, an individual stock item, as well as one where the unit - of - account might be, say, an individual operating unit depending on the level of aggregation or disaggregation adopted by the business entity.

Rather than being linked with separability, I suspect that one would have typically associated the property of ‘decision usefulness’ in Figure 5.2 which may be also, as a property of a ‘faithful representation of economic reality’, the axial category in Figure 5.2. Indeed, the term ‘decision usefulness’ is often prefixed with the word ‘economic’. But, of course, it does not have to be because what is ‘decision useful’ is peculiar to the decision maker. Now, if one views ‘economic decision useful’ information as being that which is based on current market values, then the most accurate representation of ‘economic’ reality would undoubtedly be the daily market price and value for the business entity as a whole. It is only because accountants choose to disaggregate this value into smaller units - of - account that the issue of separability arises. However, this particular view of separability is economic, market - specific and measurement - centred in that the market will reflect the synergistic gains from assets used in combination, including bundles, as well as gains from ‘assets’ that are not currently recognized by accountants, for example, a superior management team. The market value will undoubtedly reflect, at some points in time, the effects of irrational exuberance too. It is possible, though, to adopt an opposite stance which is more entity - specific and recognition - centred upon the individual assets of a business. With this stance, the above effects of bundling, synergies and irrational exuberance are generally ignored. For example, as Accounting expert (3) said “Is the purpose to give the user some idea of what he can realize of economic values associated with each item in the financial report? In that case I think you need to separate everything. You cannot bundle assets. If the whole point is the going concern concept: the idea is you give some information about is the value of the going concern concept, I think you might be allowed to bundle assets" (Figure 5.2, line 51 is justified).

Whether one decides to disclose individual and / or bundled assets as a unit - of - account depends on the level of aggregation one wishes to adopt for each type of business and type of product or service. For as UK ASB member said "If you've got a lot of machines installed in a factory you'd normally regard that plant as being what you'd sell. You wouldn't pull out the machines that are installed" (Figure 5.2, line 50 is justified). As already discussed above, there is no standardization here because it depends partly upon one's view of what is decision useful. If follows, to some extent, that there will be a range of aggregation and disaggregation according to business circumstance and inclination. As AcSB member (1) said "..this problem has not been resolved in the [conceptual] framework, as to whether we look at individual items or a portfolio of items" (Figure 5.2, line 53 is justified). Goodwill accounting, for example, arises from a mix of various levels of aggregation (the business investment – the highest level) and disaggregation (the separable assets – expected to be at the lowest level of individual assets but there may be bundles too).

In this discussion about an 'appropriate' level of aggregation there has been an implicit assumption, whether bundled or individual, the asset(s) in question are separable from each other. However, this assumption is incorrect. Consider, for example, the case of purchased goodwill again. It is a measured 'difference' or 'excess' that may well hide unrecognizable 'assets' like a superior management team or internally generated intangible assets, as well as, quite likely, overpayments to acquire a business that reflect the effects of irrational exuberance. One simply does not know about its constituent nature because purchased goodwill is not separably recognized as an asset other than on the basis of a measured difference. As a measurement it is made separable by an accounting definition, but is it separable from the other assets? One needs an additional test in order to determine separability which was identified by the interviewees. For example, Accounting expert (3) said "If it's possible to separate them because you can transfer one item separately from the other one then in my view it makes a lot of sense to separate them. It's not a question of whether you always have a bundle or you always separate. It's a question of circumstances" (Figure 5.2, line 52 is justified). On this 'transferability' basis purchased goodwill would not be recognized as an asset because it (whatever *it* is) would not be transferred separately from the other assets of a business. However, this link of transferability to separability is not peculiar to purchased goodwill since it would obviously affect any that could not be transferred separately from the other assets of a business. So, to use UK ASB member's example, above, if the machines are all interlinked then it is highly likely that all the machines would be transferred together as an item of plant. And, where the plant could not be removed at all then it would be highly likely that the transfer would be at the operating unit level, that is, inclusive of the building. The point is that 'transferability' is determining the level of aggregation and ultimately the unit - of - account.

As purchased goodwill demonstrates, it is possible to have a unit - of - account that is entirely measurement - based. However, it seems likely that at the selective coding stage I will reject this stance because of the earlier logic that one first needs to recognize an asset, otherwise one cannot be too sure of what one is measuring. For example, I asked IASB member (2) if she thought separability was essentially a recognition issue first. She said "Before it is a measurement issue?...May be it is" and later on "Just measuring it doesn't mean you have already recognized it." So, finally, I have to be clear here in respect of the axial concept that I am talking about a separable nature here: an asset recognition issue, not a measurement issue (Figure 5.2, line 49 is justified). To clarify, the unit - of - account does not refer in the first instance to the unit of measure (eg. money, time) or the measurement basis (eg. HC / RC / NRV), rather, to the unit - of - account: the unit to which a measurement may be applied – addressed next.

5.2.3 Capable of being measured

There are many interest groups outside the accounting domain who would argue for the asset status of wealth - creating items like, for example, brand name awareness or job satisfaction and retention rates as an indicator of motivated and productive human assets. In both cases they are measurable usually by means of surveys and in both cases they would not be recognized as assets within the accounting domain. IASB member (1) said “it has to meet the definition [of an asset] and it has to be measurable or I wouldn’t know what to do with it.” Yet, it may argued, for example, that the advertising expenditure in support of brand name awareness may be reliably recorded and measured and that in some cases this may lead to an increase in future economic benefits. So, in this regard, IASB member (1) ’s conditions are fulfilled. It follows that a measurable asset for accounting purposes should have some recognizable characteristics. In this sense one is still referring to asset recognition rather than asset measurement. So, for example, an obvious pre - measurement recognition characteristic is that the asset in question is only measurable in financial terms for financial accounting purposes (Figure 5.3, line 54 is justified).

The distinction between a measurable asset (a pre - measurement recognition issue) and asset measurement (a measurement issue) was clarified by AcSB member (1) “I guess a ‘measurable asset’ is the characteristic of whether an asset is capable of being measured whereas ‘asset measurement’ seems to me to be the process of doing the measurement”, that is, assigning a financial figure to it (Figure 5.3, line 55 is justified). What is not clear is whether one can have a measurable asset (that is, recognition) for which the asset measurement is zero (that is, nevertheless, a measurement)? The current definition of an asset indicates that an asset **must** produce future economic benefits and therefore, in principle, a measurable asset must have a measurement of greater than zero. As the above rights - based section 5.2.1 showed, an asset is much more than its ability to generate income.

According to AcSB member (1) “there is something like 29 different measurement bases” that may be used to establish an asset measurement (Figure 5.3, line 58 is justified). It is not the purpose of this thesis to justify the use of any of them. Rather, to repeat, to establish some criteria that might affect their selection and use. So, for example, it may be argued that any asset measurement should be an observable one whether by reference to the market place or an entity - located transaction or in compliance with some regulation or on some other basis. Observations are performed by human beings who observations are restricted to *what is* and *what has been* since “…the future as such cannot be observed. Therefore, measurements must be independent of any future events…” (Vehmanen, 2006) – Figure 5.3, line 56 is justified, but one still needs to be mindful that there were interviewees who argued that the ‘present’ is conditioned by ‘future’ expectations. Nevertheless, it is self - evident that future based measurements are predictive, not observable (see the interviewee comments re Figure 5.3, line 24). The obvious problem of observing something that is an intangible asset is obviated through the use of physical substitutes: artefacts, usually documentary based ones such as patent letters (discussed in Figure 5.4, line 37 later on). Observable measurements range from entity - specific measurements to a market - specific measurements (Figure 5.3, line 59 is justified), though, at the initial recognition stage of an asset they are often the same thing. So, where one looks / observes will have a bearing upon the measurement basis selected, for example, legalistic documentary evidence or the rapidly changing prices of a stock and commodities market.

If one is just adding up nominal units of money and those units were not representative of value over time then the process of measurement would be additive. The comments of AcSB member (2) (Figure 5.3, line 26) provide a basis for inducing that an additive measurement could be another property of a measurable asset, thus, Figure 5.3, line 57 is justified. But of course, that is not the case in practice because as Takayera and Sawabe (2000, p789) succinctly put it “Money represents value, but money itself is empty.” Whilst, one can do nothing about the intrinsic loss of additivity over time (because of inflation), one can minimize the effects by adopting a single measurement basis located in one time frame, for example, historical cost. However, it was clear from the interviewee’s comments that there was also support for the current mixed measurement approach to accounting with its use of multiple time frames. I have included additivity in the analysis so far but unless the subsequent questionnaires support this inclusion it seems likely that this property will need to be extracted at the selective coding stage. And, it may well be the case it should be replaced by the descriptor: ‘mixed measurements’. This is clearly an unsaturated area of analysis.

5.2.4 Constitutes a recorded social construction that purports to represent economic reality

The epistemological basis of accounting is a socially constructed one that uses documented definitions, principles and rules as its building blocks. The construction itself is also a political one, inherently so, and therefore one that changes with social norms, sometimes radically, but often in an evolutionary manner. So, for example, the definition of an asset is currently under review by the IASB: an evolutionary process. According to those socio -

political policy choices, there will be many ‘assets’ that will not be disclosed on the balance sheet. I have already discussed some of them previously and the three types of balance sheet asset omissions in Figure 5.4, line 30 support this assertion. Figure 5.4, line 63 is therefore justified. The selective omission of ‘assets’ from the balance sheet means that its construction will always be a contestable one (see Figure 5.4, line 27), at least by those parties who believe that the resultant portrayal of economic reality is incomplete without them.

IASB member (5) said “I think there is a lot of tension around recognition”. At the centre of this tension is the definition of an asset because this is the current starting point in the asset recognition process and it is selectively used to both validate and curtail asset recognition. Whilst the definition of an asset has conceptual primacy in the recognition process (see Figure 5.4, lines 28 and 29 again), it is entirely possible to give conceptual primacy to a revenue / expense dominant view of accounting, instead (see, for example, Paton and Littleton, 1940). The fact that the alternative asset / liability dominant view of accounting was chosen is a political policy choice and, therefore, a contestable choice (Figure 5.4, line 61 is justified). The central role of the asset definition is demonstrated in practice by the fact that it is the top element of a hierarchy comprising liabilities (obligated assets), expenses (consumed assets), income (traded assets), capital (increase / decrease in net assets). Figure 5.4, line 62 is justified. However, it would have been possible to ignore this hierarchy and give a central role to the matching concept instead and to have the balance sheet as a residue of what is left over from the matching process. The relevance of this discussion from my viewpoint is that if the status quo is contestable, then it is possible to entertain an alternative social construction (Figure 5.4, line 60 is justified).

With the exception of ‘reliability’ there is an argument to the effect that Figure 5.4, lines 64-69 are already induced in the IASB conceptual framework developments. What I show is to some extent a reflection of what the IASB is also constructing. The interviewees were apparently aware of this and this was reflected in some of their comments. In other words, the links from the axial category ‘faithful representation of economic reality’ to its related properties were already justified on this basis with the exception of ‘reliability’, which is to be substituted by ‘neutrality’ in the IASB developments. I include ‘reliability’ here because it flowed from the open coding and some interviewees lamented its passing “In my view you definitely need to have reliability” (Accounting expert (3)). The key inductive issue here, though, is the dangerous assumption that a “faithful representation” is possible at all, with or without these properties. “Faithful representation” is a relative and abstract term that should be benchmarked against an objective standard in order to convey meaning. But that is not the case and accountants simply **purport** to represent economic reality, instead. Likewise, using terms like ‘economic phenomena’ or ‘economic reality’ leads to further obfuscation for the same reason, though it does provide a specific economic bias – whatever ‘economic’ means? It is possible, though, to remove the need for a benchmark by making any representation self - referential, that is, the accounting figures represent what they purport to represent and nothing more. So, in making the link between the axial category and the axial concept (Figure 5.4, line 64), it may be argued that, in the absence of a benchmark, accountants can only *purport* to represent economic reality which may or may not be a faithful representation of it.

One of the advantages of transactions - based accounting is that it is mostly documentary if only for audit and taxation purposes. IASB member (2) , though, preferred to use the broader term: ‘events’ (see Figure 5.4, line 37) which would potentially capture the recognition of non - transactions based or internally generated intangible assets as well as, perhaps, the more usual ones, such as a court order. AcSB member (1) also pointed out that physical custody may be sufficient too, for example, where computer records are secured on discs in fire proof safes or where a secret Coca Cola recipe is secured in a similar manner. Now, it seems to me that the key feature here is about physical evidence that an asset has been recognized whether transacted or not. In the case of intangible assets one must be referring to artefacts (man - made objects) that act as the surrogate representation of the missing physical form. And such an approach is entirely in keeping with a social constructionist of reality because without some physical representation it is hard to see or understand what has been constructed. Theoretical mathematicians may disagree but even they have to commit their ideas to print at some point in time. I would therefore argue that a social construction that purports to represent economic reality is one that requires evidences to support that portrayal. Those evidences may indeed be broadly based and therefore I use the term artefact - based asset recognition (Figure 5.4, line 70 is justified).

5.3 Summary

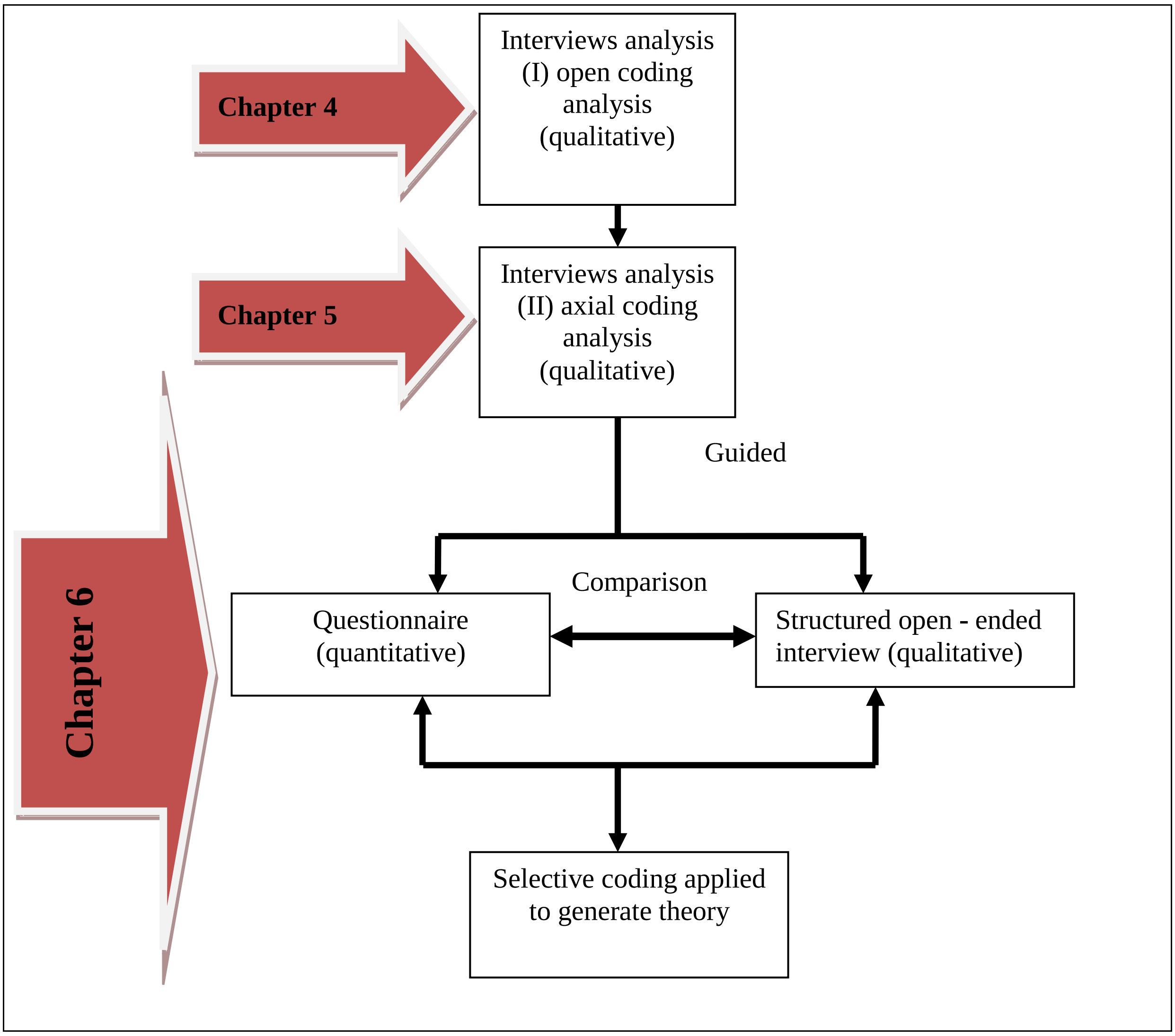
This chapter discussed the axial coding analysis, which was done in the form of deductive inductive approaches. The results were presented in four figures where four axial concepts emerged with their related properties and dimensions. Next, in the following chapter, I turn my attention to the patterns that have emerged deductively and inductively from chapter four and five in order to assess the degree of theoretical saturation in support of Figures 5.1 – 5.4.

Chapter Six: The Selective Coding Stage

6.0 Introduction

In the previous two chapters, I discussed the results of the interview analysis leading to the identified concepts and axial categories. In this chapter, I extend this analysis by presenting the results of a questionnaire and a structured open - ended interview conducted with ASB's director. The purpose in this extra round of data collection was, where applicable, to strengthen aspects of the emergent structure previously presented in Figures 5.1 to 5.4.

FIGURE 6.1: THE DISCOVERY PROCESS FOR THE GENERATED THEORY AND HOW CHAPTERS FOUR, FIVE AND SIX ARE INTERRELATED



In other words, to improve the level of confidence as to the theoretical saturation of the codes and the linkages between them as presented in these four figures. However, the converse is also correct: to amend, if necessary by deletion, these four figures where the evidence from the additional data sets presented in this chapter indicate otherwise. As with the axial coding stage previously, this selective process inevitably involved a degree of researcher bias as to what could or could not be finally included in the generated theory based on my interpretation of all of the available evidence.

Figure 6.1 flowcharts the progress made so far, namely, that the open codes from the first stage (Chapter 4) were grouped into axial categories in the second stage (chapter 5) from which a theory selectively emerges here in chapter 6.

Strauss and Corbin (1990, p143) define *selective coding* as “the process of integrating and refining categories”. The purpose of this “integrating and refining” is to move towards what Corbin and Strauss (2008, p263) refer to as theory integration: “the process of linking categories around a core category and refining and trimming theoretical construction”. As you can see from Figure 6.1, a questionnaire, together with a structured open - ended interview, were used to link many of the axial categories (chapter 5) around core selective categories, to be explored in this chapter. The analysis will show that the continuous comparison between data sets resulted in saturated codes and the emergence of the selective core categories. Strauss and Corbin (1990) described this stage as “the point in category development at which no new properties, dimensions or relationships emerge during analysis” (p.143). Similarly, Pandit (1996) describes this point as the point where marginal improvement becomes at minimal.

Therefore, this chapter is divided into the following sections:

Section 6.1: Questionnaire implementation

Section 6.2 Analysis of responses

Section 6.3: Selective coding analysis

Section 6.4: Summary

6.1 Questionnaire implementation

The steps I intend to adopt herein follow are those of Oppenheim (2001) as are outlined in Table 3.4 in chapter three. A five-point likert scale was used ranging from 'Strongly Oppose' to 'Strongly Support'. This five - point likert scale facilitates the quantification of the responses, in this case, a simple statistical analysis using percentages. The questionnaire was revised several times according to the comments of the supervisors, two academic staff, and a Canadian Accounting standard Board member. After some final refinements, the questionnaire was uploaded on the 'survey monkey' website: (http://www.surveymonkey.com/s.aspx?sm=vPhqKscwy7krav6aLAOKmg_3d_3d). The use of the questionnaire was vital at this later stage, where the answers of those standard regulators quantified the evidence around each category, subcategory property and dimension based on the diagrams 5.1 – 5.4. In addition, the use of the online survey facilitates the data collection, every answer is saved automatically once the respondent moves from one section to the other. It also avoids the problem of time difference between for example Australia and United Kingdom, I sent the questionnaire on line and whenever the respondent has free time he can just click on the link and begin answering the questions.

6.1.1 Administration of the Questionnaire

Every effort was made to get a good number of responses from this online survey. Emails with a covering letter (see appendix D) were sent to selected respondents (as shown in table 6.1) to ask them to fill in the online survey using the above survey link. The purpose of this covering letter was to introduce the purpose of the research, the objectives and to acknowledge their contribution to the research understudy and to ensure confidentiality. Before sending the emails, I contacted the selected respondents, or through their secretaries, by phone call. The purpose was to introduce the questionnaire and to encourage them to response. I began with Canadian Accounting Standards Board (AcSB) members. Thereafter, I contacted some German Accounting Standard Board members and then contacted the Australian Accounting Standard Board (AASB) members through their Board email.

In the meantime, the Governmental Accounting Standard Board in the USA (The mission of the Governmental Accounting Standards Board is to establish and improve standards of state and local governmental accounting and financial reporting, that will result in useful information for users of financial reports and guide and educate the public, including issuers, auditors, and users of those financial reports; www.GASB.org) had been working on a project on their **'Conceptual Framework - Recognition and Measurement Attributes' (http://www.gasb.org/project_pages/index.html) (GASB, 2009).** I sent emails, four members who are responsible for this project, with the survey link. Thereafter, I contacted the UK Accounting Standards Board's (ASB) secretary and I asked her to forward my email to the ASB members to those who were concerned with my topic area, also, to ask the UK ASB director for a face - to - face interview. He accepted the interview was conducted at the ASB Head Office in London. A structured open - ended interview took about two hours and the word count for it is about 14,000 words.

6.1.2 The Questionnaire responses

Thirty - two respondents were contacted and twenty - one questionnaires appeared on my 'survey monkey' account. Table 6.1 shows the number of respondents and the Board to which they are connected (where he / she received the on line survey):

TABLE 6.1: NUMBER OF REGULATORS IN EACH BOARD RECEIVED THE QUESTIONNAIRE:

National Standard Board	The number of questionnaire sent to
Canadian Accounting Standard Board	**2**
Australian Accounting Standard Board	**17**
German Accounting Standard Board	**7**
Governmental Accounting Standard Board	**4**
UK - Accounting Standard Board	**2**
Total	**32**

Table 6.2 shows the number of responses and the response rate for each of the four sections in the questionnaire:

TABLE 6.2: THE NUMBER OF RESPONSES AND RESPONSE RATE

Questionnaire sections	Number of responses (rate of response)
Section 1	21 (67%)
Section 2	17 (53%)
Section 3	16 (50%)
Section 4	16 (50%)
Total	21 (67%)

6.2 Analysis of responses

The concepts, axial categories, subcategories, properties and dimensions that came out of the axial analysis, were used to compile four groups of questions. The questions were designed to fill a perceived gap in the emerging theory (see Figures 5.1 - 5.4) with a view to achieving theoretical saturation. These groups, together with their related responses, are summarised below. The purpose of the questionnaire was to ascertain the degree of support or opposition for / to the axial structures in Figures 5.1 to 5.4. The four tables in subsections 6.2.1 to 6.2.4 summarise the frequencies, percentages of responses, mean, standard deviation and the skewness of the responses to each question. The mean measures the centre of the distribution of data and the standard deviation shows a measure of the spread of the distribution (Collis and Hussey, 2003). The skewness as a score should be zero if there is a normal distribution for the responses. If the score is negative, this means that there is a '*pile up*' (Field, 2009, p.138) of scores on the right of the distribution and, if positive, this means there is a pile up to the left of the distribution. The questionnaire results are analysed in detail in section 6.3, below, using 'exploratory descriptive statistical analysis - EDA' (Chen, 2009). This EDA discusses the frequency distribution and the descriptive statistics (minimum, maximum, mean, standard deviation and skewness).

6.2.1 'Rights based' asset recognition

Whilst the categories in respect of the 'rights based' axial concept (see Figure 5.1) have now emerged, they are not necessarily saturated. To reach to theoretical saturation, as defined by Straussian approach (as discussed in chapter 3), I have to fill in the gaps in the theory. The following tables show the results of the EDA for the rights based assets recognition.

TABLE 6.3: THE QUESTIONS, FREQUENCIES, MEAN, STANDARD DEVIATION AND SKEWNESS FOR 'RIGHTS - BASED' RECOGNITION

AXIAL CODES	Survey questions	Number	Strongly oppose and oppose*		Strongly support and support*		Mean	Standard deviation	Skewness
			Frequency	%	Frequency	%			
1-RIGHT TO CONTROL AN ECONOMIC RESOURCE	A business entity would want the legal 'right' to control an asset.	21	2	10	16	76	3.96	0.92	-0.8
	There are many intangible economic resources in a business that are not recognised as intangible assets for accounting purposes.	21	2	10	16	76	4.24	1.04	-1.1
	Generally, a 'right' is ineffective unless it is a legally enforceable right.	21	4	19	17	81	4.00	1.10	-1.0
2-A RIGHT TO PREVENT ACCESS BY OTHERS	A business entity would want a 'right' to control an asset that effectively prevents others from competing with that business entity.	21	1	5	17	81	4.00	0.95	-1.6
3-ENFORCEABLE VS. LEGALITY	The economic resource in respect of the accounting recognition of an intangible asset is a legally enforceable right.	21	5	24	10	48	3.38	1.02	-0.5
4-RIGHT TO USE AN ECONOMIC RESOURCE	The rights attached to an asset include a business entity's right to use an asset.	21	1	5	19	90	4.43	0.81	-1.6
5-RIGHT TO MANAGE AN ECONOMIC RESOURCE	The rights attached to an asset include a business entity's right to manage an asset.	21	2	10	17	83	4.24	0.99	-1.2
6-RIGHT TO APPLY AN ECONOMIC RESOURCE AS A SECURITY	The rights attached to an asset include a business entity's right to apply the asset as security.	21	5	24	9	43	3.43	1.12	-0.1

7-RIGHT TO TRANSFER AN ECONOMIC RESOURCE	The rights attached to an asset include a business entity's right to transfer an asset.	**21**	**5**	**24**	**12**	**57**	**3.48**	**1.03**	**-0.2**
8-RIGHT TO EXECUTE A LIABILITY BY THIS ECONOMIC RESOURCE	The rights attached to an asset include a business entity's right to settle debts with it.	**21**	**5**	**24**	**11**	**52**	**3.38**	**1.36**	**-0.5**
9-RIGHT TO RESIDUARY CHARACTER	The rights attached to an asset (whether leased or purchased) include a business entity's right to any residuary character – what may remain after an asset is fully depreciated.	**21**	**0**	**0**	**13**	**62**	**3.81**	**0.75**	**-0.34**
10-RIGHT TO TIME HORIZON OF AN ASSET	The rights attached to an asset are for the life or duration of an asset unless legally determined otherwise.	**21`**	**3**	**14**	**17**	**81**	**4.00**	**1.00**	**-0.1**
11-RIGHT TO PROHIBITION TO HARMFUL USE	An asset should not be used to harm others.	**21**	**3**	**14**	**14**	**57**	**4.05**	**1.17**	**-0.8**
12-RIGHT TO FUTURE ECONOMIC BENEFITS	The rights attached to an asset include a business entity's right to future economic benefits.	**21**	**0**	**0**	**21**	**100**	**4.67**	**0.43**	**-0.8**
	The rights attached to an asset include a business entity's right to future economic benefits and any related probable capital gains or losses.	**21**	**0**	**0**	**20**	**95**	**4.24**	**0.54**	**-0.2**

13-RIGHTS OVER TANGIBLE AS WELL AS TANGIBLE ASSETS	Generally, the above 'rights' (points 1.5 – 1.14) may be attached to all types of assets: tangible assets and intangible assets alike.	**21**	**0**	**0**	**20**	**95**	**4.29**	**0.56**	**-0.4**
14-ARTEFACT BASIS	Generally, a 'right' is ineffective unless it is supported by documentary or similar physical evidence.	**21**	**6**	**29**	**10**	**48**	**3.19**	**1.17**	**-0.4**
15-ENTITY POWER	There is no 'right' to control a human being unless one believes in slavery.	**21**	**2**	**10**	**16**	**76**	**4.05**	**0.97**	**-0.8**

***5 point likert scale was used in this questionnaire, from strongly oppose to strongly support.**

6.2.2 'Separable in nature' asset recognition

The concept of an asset being 'separable in nature' arises during the axial coding analysis, where 'unit of account' and right to transfer are axial categories (see Figure 5.2). The following tables show the results of the EDA for the 'separable in nature' concept.

TABLE 6.4: THE QUESTIONS, FREQUENCIES, MEAN, STANDARD DEVIATION AND SKEWNESS FOR 'SEPARABLE IN NATURE' RECOGNITION

Axial codes	Survey questions	Number	Strongly oppose and oppose		Strongly support and support		Mean	Standard deviation	Skewness
			Frequency	%	Frequency	%			
1-UNIT OF ACCOUNT	It is possible to disclose separable 'individual' assets and separable 'bundles' of assets on the balance sheet.	17	1	6	13	77	3.82	0.73	-0.8
	The disclosure of bundles of assets should be avoided wherever possible.	17	5	29	9	53	3.12	1.27	-0.7
	The balance sheet should only show those assets that are separable from the other assets of a business entity.	17	9	53	5	29	2.71	1.31	0.4
2-RIGHT TO TRANSFERENCE	What characterises a separable asset is whether it is capable of being transferred separately from the other assets of a business entity.	17	7	41	6	35	3.00	1.32	0.2
3-LEVEL OF AGGREGATION	The level at which assets are either aggregated or disaggregated for disclosure purposes depends on the type of business, for example, car component manufacturer for component assets or car distributor for a car asset.	17	1	6	15	88	4.12	0.78	-1.1
4-HIGHEST VS. LOWEST LEVEL OF AGGREGATION	The level at which assets are either aggregated or disaggregated for disclosure purposes depends on the type of asset, for example, a single machine or an integrated production line.	17	1	6	11	65	3.65	0.93	-1.3
5-DECISION USEFULNESS	Whether a business entity discloses an individual asset or a bundled asset as a single unit - of - account depends on the decision usefulness of that information as presented on the balance sheet.	17	2	12	10	59	3.53	1.01	-0.9

6.2.3 ‘Capable of being measured’ asset recognition

The concept of ‘capable of being measured’ arises during the axial coding analysis, where it is the intersecting point between the pre - measurement phase and the measurement phase. I am not considering measurement methods here (indeed, anywhere in this thesis), rather, the parameters in which a measurement can occur. And the starting in that regard is that an asset should be ‘measurable’ one. The following tables show the result of the EDA.

TABLE 6.5: THE QUESTIONS, FREQUENCIES, MEAN, STANDARD DEVIATION AND SKEWNESS FOR 'CAPABLE OF BEING MEASURED' RECOGNITION

Axial codes	Survey questions	Number	Strongly oppose and oppose		Strongly support and support		Mean	Standard deviation	Skewness
			Frequency	%	Frequency	%			
1-MEASURABLE ASSET	'Assets' intended to prevent competition or prevent pollution or meet some statutory requirement may have a zero value that should, nevertheless, be disclosed on the balance sheet.	16	6	38	5	31	2.94	1.24	0.1
2-OBSERVABLE MEASUREMENT VS. PREDICTIVE MEASUREMENT	An asset measurement should be capable of being observed.	16	2	19	10	63	3.75	1.13	-0.4
	The observation of a measurement basis is restricted to the past and present, not the future.	16	8	50	5	31	2.56	1.21	0.1
3-RESPONSES FOR ADDITIVE MEASUREMENT	Whatever measurement basis is applied in accounting it should be a single measurement basis, not one using mixed measurement bases.	16	12	75	3	19	2.25	1.19	1.1
	Mixed measurement bases are inherently non -additive in nature despite the fact that, in practice, they are added together.	16	7	44	7	44	3.06	1.06	0.2
4-ENTITY SPECIFIC VS. MARKET SPECIFIC MEASUREMENT	Many asset measurements may not reflect the market values.	16	1	6	10	63	3.88	0.96	-0.2
5-ASSET MEASUREMENT	Many asset measurements do not represent the value of "current economic phenomena".	16	0	0	10	63	3.69	0.60	-0.2

6.2.4 Asset recognition 'constitutes a recorded social construction that purports to represent economic reality'

In this part of the questionnaire I asked only about the epistemological basis of accounting for asset recognition because it is a socially constructed one that uses documented definitions, principles and rules as its building blocks. The following tables show the results of the EDA.

TABLE 6.6: THE QUESTIONS, FREQUENCIES, MEAN, STANDARD DEVIATION AND SKEWNESS FOR ‘ASSET RECOGNITION CONSTITUTES A SOCIAL CONSTRUCTION THAT PURPORTS TO REPRESENT ECONOMIC REALITY’

Axial codes	Survey questions	Number	Strongly oppose and oppose		Strongly support and support		Mean	Standard deviation	Skewness
			Frequency	%	Frequency	%			
SOCIAL CONTESTABLE CONSTRUCTION OF AN ASSET	Many ‘assets’ are not disclosed on the balance sheet.	16	2	13	14	87	4.13	0.96	-1.3
	The balance sheet is self - referential, that is, it represents what it purports to represent and nothing more.	16	2	13	11	69	3.81	0.98	-0.5
	The balance sheet should faithfully represent economic reality.	16	4	19	10	48	3.44	1.31	-0.8

6.3 Selective coding analysis

Strauss and Corbin (1990) define *selective coding* as "the process of integrating and refining categories" (p.143). In this stage of analysis, I have integrated the responses from the questionnaire and the structured open - ended interview to the axial categories around a core selective category (Corbin and Strauss (2008) define t*heory* *integration* as "the process of linking categories around a core category and refining and trimming theoretical construction", p.263). As the analysis continued, the continuous comparison with each data set collected resulted in the emergence of the core category (selective coding analysis).

6.3.1 Descriptive statistics

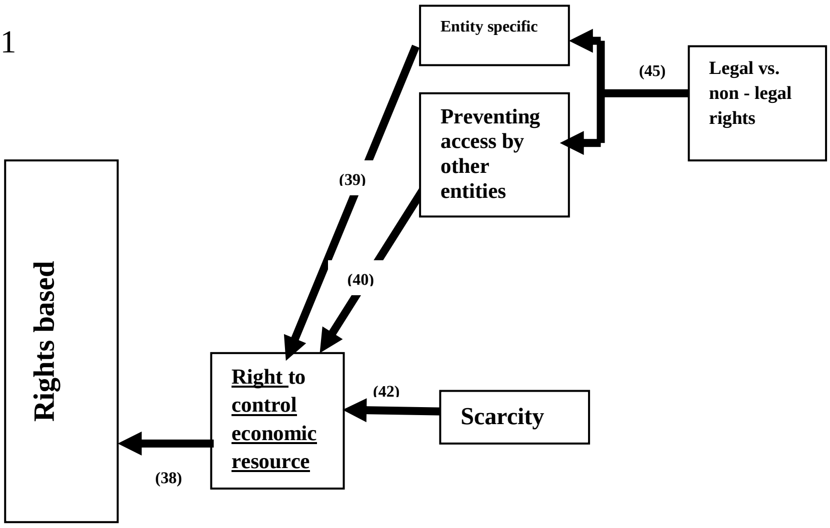
The purpose of the questionnaire, to repeat, was to fill in the gaps in the preliminary generated theory from the axial coding analysis with an aim of reaching theory saturation. The above tables (Tables 6.3 - 6.6) summarise the frequencies, percentages of responses, mean, standard deviation and the skewness of the responses to that questionnaire. I shall draw upon these tables in the following analysis.

I present visual extracts from Figures 5.1 to 5.4 throughout this section so that the reader can see the connection to the previous axial coding stage. As far as possible I shall follow the order presented in those four figures which, in turn, informed the questionnaire content. I therefore start with rights based asset recognition and the axial core category: the right to control economic resources.

Rights based and its role in accounting asset recognition (Table 6.3)

The relevant extract from Figure 5.1 is presented in diagrams 6.1 to 6.5

Diagram 6.1



<u>Right to control an economic resource (see Table 6.3, 1)</u>

Seventy - six percent of the respondents indicated that there should be a **'legal right to control an economic resource'** in order to recognise this economic resource as an asset in the balance sheet. The same percent (76 %) of the respondents supported the idea that an intangible economic resource should be supported by legally enforceable rights in order for it to be recognised in the balance sheet. 81 % of the responses supported the idea that 'rights' should be accompanied by **'legality and enforceability'.**

<u>A Right that prevents access by other entities (see Table 6.3, 2)</u>

Eighty one percent (81 %) of the respondents believed that for an entity to have the right to control an economic resource, this right should prevent access by other entities to this economic resource.

An intangible asset's 'economic resource' *is* 'enforceable rights' (see Table 6.3, 3)

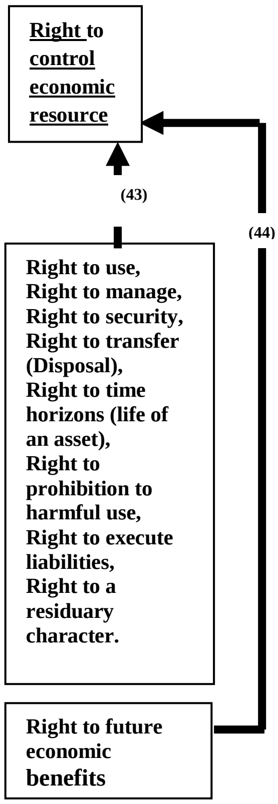
Only 48 % of the respondents supported this idea. One suspects that it is a difficult concept for the respondents to visualise because, whilst one can easily comprehend that an enforceable right is *attached* to a tangible economic resource (for example, money, materials, labour), in respect of an intangible economic resource, it requires one to comprehend, instead, that a conflation exists between an 'economic resource' and 'enforceable rights' – the 'economic resource' *is* the 'enforceable rights' where the economic resource does not physically exist.

Forms of 'Right to control an economic resource' (see Tables 6.3, 4-11)

There are eight forms of right to control an economic resource: **right to use** (the responses were 90 % support), **right to manage** (responses were 83 % support), **right to use the economic resource as a guarantee** (responses were 43 % support , while only 24 % oppose), **right to transfer an economic resource** (57 % support), **right to execute a liability** (52 % support, 24 % oppose), **right to residuary character** (62 % support), **right to life horizon of this economic resource** (81 % support) and finally **right to prohibition of harmful use** (57 % support, 14 % oppose).

These are different forms of the right to control an economic resource centred upon rights (see Table 6.3, 13) in summary – 85 % support). Overall, the responses were supportive of the axial structure presented in diagram 6.2 opposite.

Diagram 6.2

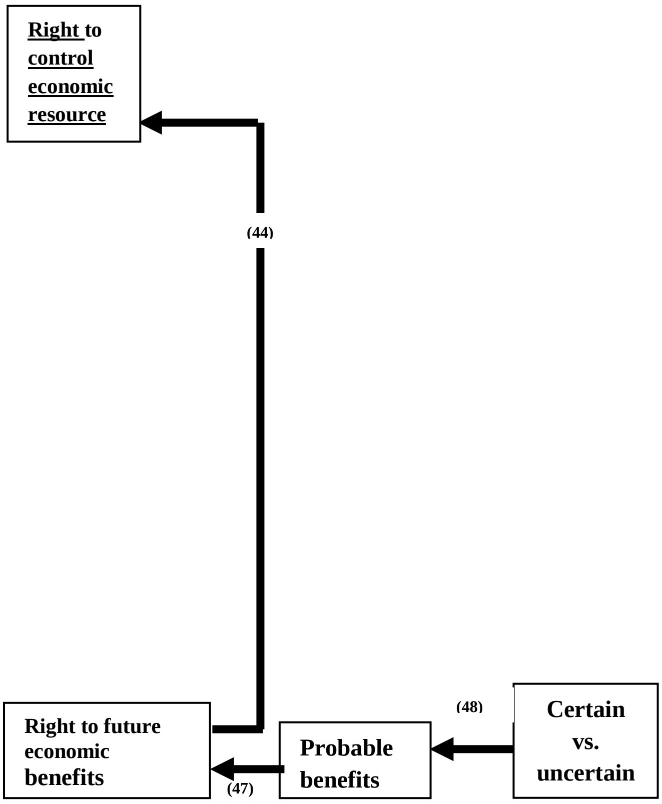


Right to future economic benefits (see Table 6.3, 12)

When the respondents were asked about the **right of the business entity to the future economic benefits** from an economic resource, unsurprisingly, there was overwhelming support (100 % and 95 %).

The relevant extract from Figure 5.1 is presented in Diagram 6.3, below

Diagram 6.3



Artefact basis (see Table 6.3, 14)

The right attached to an economic resource is verifiable when it is supported by documentary evidence – an artefact. In respect of intangible assets, this artefact is also the means of establishing a separable, legal, physical and verifiable resource – that is, if the argument in Table 6.5, previously, is supported. For example, the artefact could be a diskette or a document: a physical carrier of, say, encoded software or a physical pictorial representation of, say, a trademark, respectively. But the level of support from the respondents for this assertion was the same as in Table 6.5, that is, 48 %.

The relevant extract from Figure 5.4 is presented in Diagram 6.4 opposite.

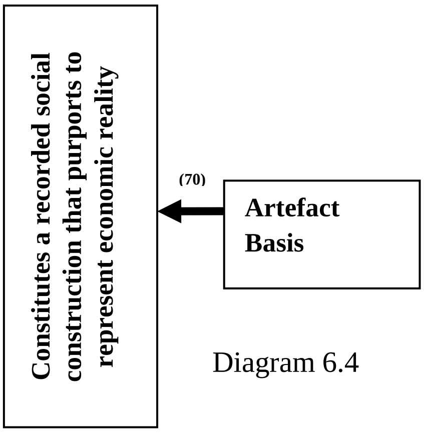


Diagram 6.4

'Entity power' (see Table 6.3, 15)

Seventy - six percent (76 %) of the respondents agreed that there is no control over people unless one believes in slavery. Control over a human asset has to be voluntary and therefore some or all of the power to control is not vested in the business entity, but in the person instead. So, involuntary control is pertinent here, that is, control over what people create as a separable asset from the person creating it.

The relevant extract from Figure 5.1 is presented in Diagram 6.5 opposite.

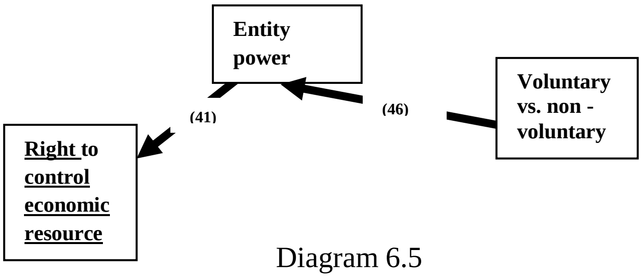


Diagram 6.5

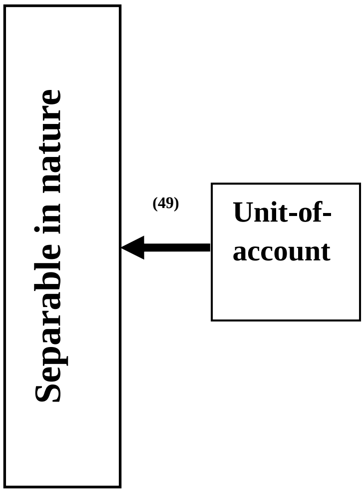
'Separable in nature' and its role in accounting asset recognition (Table 6.4)

Seventy - three percent (73%) of respondents agreed that it is possible to have separable bundles of assets as well as individual assets and a majority of them (53 %) agreed that bundling should be avoided wherever possible for disclosure purposes. However, the respondents were against disclosure on the balance sheet being conditioned by a separability requirement (only 29 % support). What the results appear to show is that the respondents' understanding of the notion of 'separability' is somewhat limited only to the recognition of intangibles. And this assertion is supported to some extent from the responses in Table 6.4, 2 where separability is identified with the 'capability to transfer an asset' separately from the other assets of a business – there was no majority either for or against. The relevant extracts from Figure 5.2 is

presented in Diagram 6.6

, opposite.

Diagram 6.6



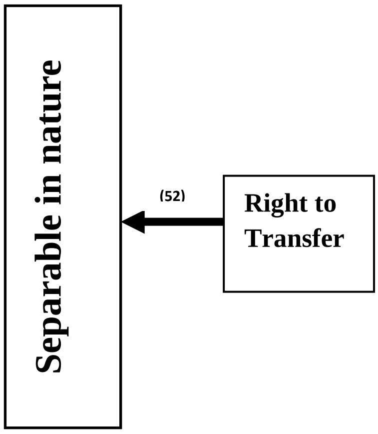
Indeed, separability, rather than being fundamentally linked to 'transference' (a recognition characteristic), appears to be more strongly linked in the minds of the respondents to the 'level of aggregation': a unit of account measurement

characteristic. The relevant extracts from Figure 5.2 is

presented in Diagram 6.7

, opposite.

Diagram 6.7



The unit of account issue refers to the level at which one discloses a measured asset such that the disclosed figures are decision useful (59 % in Table 6.4, 5). The relevant extract from Figure 5.2 is presented in Diagram 6.8, opposite.

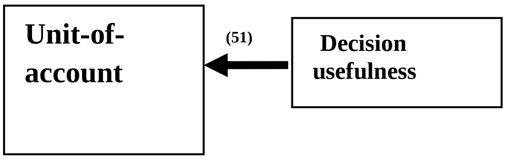


Diagram 6.8

And, as one can see from the high positive responses in Tables 6.4, 3 and 6.4, 4 (88 % and 65 %, respectively), it is an unresolved issue in accounting generally because it is dependent on the asset(s) in question and the business entity itself.

The relevant extracts from Figure 5.2 is

presented in Diagram 6.9, opposite.

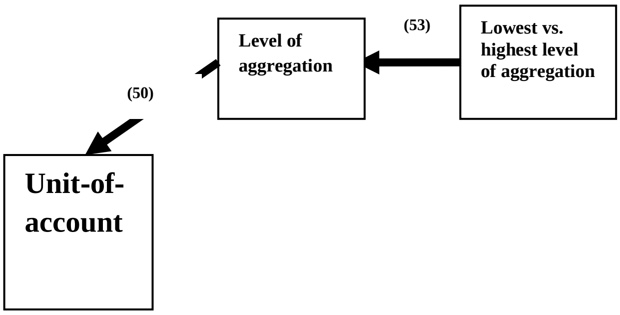


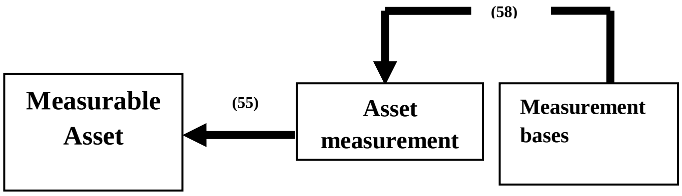
Diagram 6.9

When the respondents were asked about **the right to transference** as a core feature of an asset being 'separable in nature', their responses did not support this stance (as above), although the 'right' has previously been accepted by them as being attached to an economic resource that is *capable* of being transferred (see Figure 6.3, previously). Again, this tends to support the earlier assertion that separability, rather than being fundamentally linked to 'transference' (a recognition characteristic), appears to be more strongly linked in the minds of the respondents to the 'level of aggregation': a unit of account measurement characteristic. Yet, it is axiomatic that if I transfer an asset, I must, first, recognise it separately from the other assets (whether bundled or not) and then move it from location A to location B or at least demonstrate that it has the capability to do so. Now, of course, in respect of a nuclear power station, it does not move. It is capable of being transferred but it would be illogical for anyone to do so. But what is capable of being transferred in that example would be a supporting artefact, for example, when nuclear power generation in the UK was passed from the public sector to private sector companies there would have been a contract document (the artefact) in order to do so. Conversely, for example, a purchased goodwill 'asset' is incapable of being separately transferred from the other assets of a business and no one in their right mind would contract for it separately from the other assets of a business.

'Capable of being measured' and its role in accounting asset recognition (see Table 6.5)

Diagram 6.10 opposite is extracted from Figure 5.3, previously.

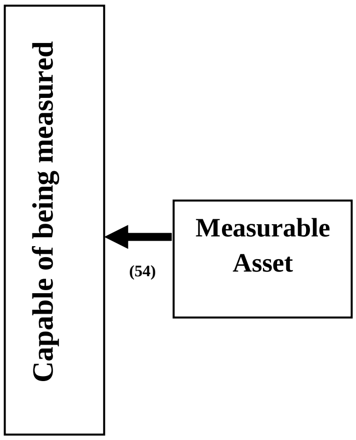
Diagram 6.10



When an asset is not measurable it should not be disclosed in the financial statements. One needs to assign an asset a figure in order for it to be disclosed in the balance sheet. In that regard, the respondents were generally not in favour of disclosing an asset in the balance sheet with a value of zero (38 % for, 31 % against).

The relevant extract from Figure 5.3 is presented in Diagram 6.11, opposite.

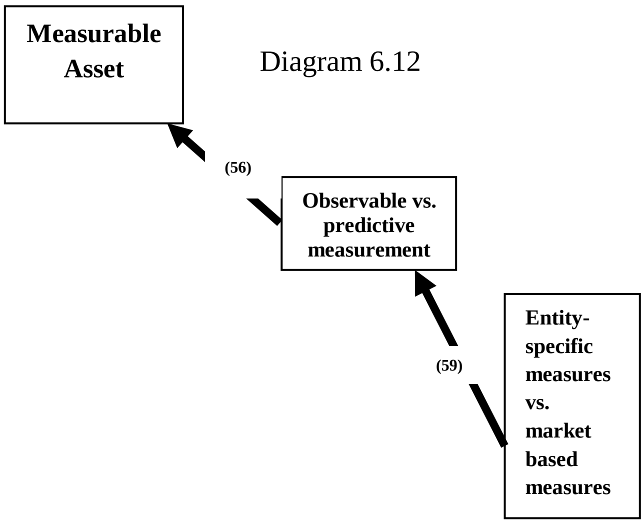
Diagram 6.11



The respondents indicated that any asset measurement should be an **observable measurement** (63 % supporting), but this observable measurement should not be restricted only to the past and present. An argument that the observation of a measurement basis is restricted to the past and present, not the future, was rejected by the respondents (50 %). So, even though it is axiomatic that the future is unobservable, nevertheless, from a measurement perspective there was a majority to the contrary. Though speculative, it would appear that the respondents were confusing ‘prediction’ of the future with ‘observation’ of the present and, possibly, that prediction is an unavoidable part of asset measurements undertaken in the present.

The respondents support (63 %) the idea that many asset measurements may not reflect market value, the implication being that measurements are a mixture of market specific and entity - specific values.

Diagram 6.12



The relevant extract from Figure 5.3 is presented in Diagram 6.12, opposite.

It was therefore not surprising that the respondents were not in favour of using one measurement basis (75 % opposing). The implication is that the current system of using mixed measurement bases should continue. Measurement bases are not referred to here because, to repeat, this thesis is about pre-measurement asset recognition. However, I would argue that obvious consequence of not using a single measurement basis (without selecting fair value or any other basis) is that accounting measurements are, therefore, inherently non -

additive in nature. Yet, the respondents seemed to be curiously reluctant to acknowledge this consequence (44 % for, 44 % against).

The relevant extract from Figure 5.3 is presented in Diagram 6.13, opposite.

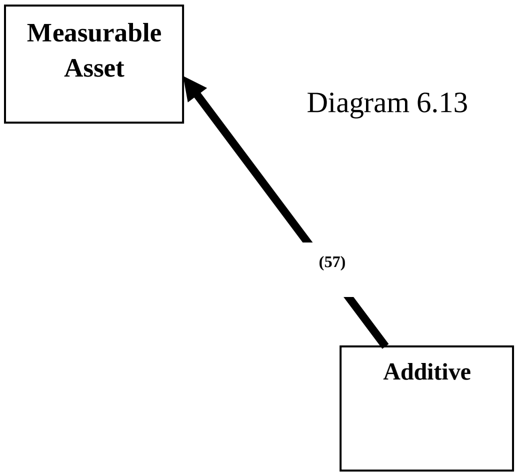


Diagram 6.13

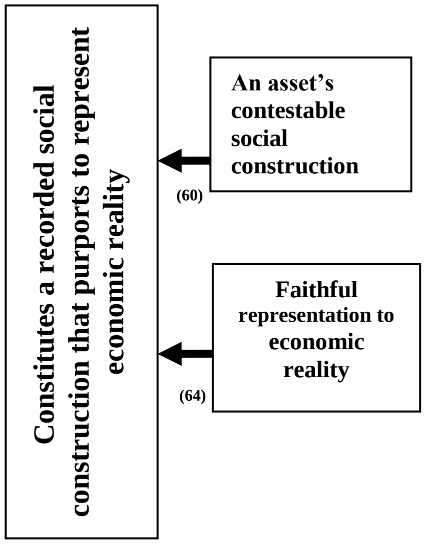
However, the evidence from the questionnaire and interviews is clear: additivity appears not to be a property of a measurable asset. That said, one may challenge the assumption that additivity is predicated on the existence of a single measurement basis. We return to this point in the UK ASB director interview in the next section of this chapter.

‘Asset epistemological basis’ and its role in accounting asset recognition (Table 6.6)

The epistemological basis of financial reporting is principles - definition - rules based. As we saw in respect of Figure 5.1 previously, the definition of an asset is of central importance in the asset recognition process. Yet, a definition basis is not being ‘all - embracing’ because the respondents (87 %) acknowledge that many assets are not disclosed on the balance sheet. The declared focus in the definition of an asset, and for financial reporting in general, is an economic one. Thus, the IASB’s latest revision to CF attempts to portray a socially constructed financial reality that is representative of real world economic phenomena. Even if one comprehends what is meant by real world economic phenomena, the respondents were clear (63 %) that many measurements do not represent the value of such phenomena. So, whilst there is some support (48 %) for the idea of the balance sheet representing economic reality, the majority (63 %) take a more pragmatic stance in that the balance sheet is actually self - referential: it represents what it purports to represent and nothing more.

The relevant extract from Figure 5.4 is presented in Diagram 6.14, opposite.

Diagram 6.14



After analysing the responses, the findings of these responses will be compared with the interview conducted with UK ASB director to show the final picture of the generated theory.

6.3.2 Qualitative analysis

At this stage in the research I have now conducted two rounds of interviews and one questionnaire. The objective, to repeat, was to reach to a point of theoretical saturation. That said, as one can see from the final group of questions in section 6.2.4, the emergent theory will always be a contestable one, particularly in respect of an asset's separable nature and the unresolved issue of deciding on an appropriate unit - of - account. I knew at the time of writing that UK ASB director was interested in this specific issue and in asset recognition in general. And his position, involvement with the CF developments and his personal expertise made him a highly suitable candidate to comment on my emergent theory, that is, in terms of one last final check on what had been created by me from the data sets. And so, I interviewed him using the same sequence of questions as constructed in the questionnaire. The interview, rather than following the rigid structure of the questionnaire, allowed both of us to search out the strengths and weaknesses of the theory. The results are presented below.

Rights based and its role in accounting asset recognition

When UK ASB director was asked about the 'Right to control an economic resource', he said the following:

[What about if the entity would require a legal right to recognise an asset in the financial statement?] "*Yes. Certainly, I don't believe that the absence of legal right necessarily disqualifies something from recognition as an asset, if I can put it that way. There are all kinds of cases, which we probably don't often think about, where it is by no means clear whether you have a legal right. It may not be clear that you don't but nobody has ever explored whether a right of way is legally enforceable or not, but clearly it either is an asset or contributes to the value of other assets and might well be recognised."*

So, whilst legality is an obvious basis on which to establish a right, it could not be regarded as the only basis and that the more pertinent issue was whether rights, legally based or otherwise, could be enforced or not. So, for example, the right may be established by custom and longstanding practice. And so I asked:

[But do you think enforceability comes here to accompany… the legal or enforceability comes to accompany the word 'rights?' Which comes first, legal or enforceable?] *"I suppose it has to be enforceability rather than legality."*

Upon first inspection, UK ASB director's comment seems logical except, perhaps, where an asset is intangible in nature. The absence of a legal right makes the issue of enforceability somewhat problematic with such assets. What is there to enforce? Even if the right is not legally based, ultimately, one can only enforce by legal means and one establishes thereby a legal right to exclude others from the use of the intangible asset in question. In this case an artefact is created after - the - event, that is, a court order. But, a legal artefact can be created before - the - event too, for example, a trademark registration, where the legal formalities try to pre - empt the need for legal enforcement. Either way, enforcement is only likely to be meaningful where the threat or action is legally based.

A legal right means they are your rights rather than another entity's rights. The rights do not have to be owned and will likely range over a continuum from legal to non – legal, proving the right is an enforceable one (ownership, contractual, statutory registration, court order, etc):

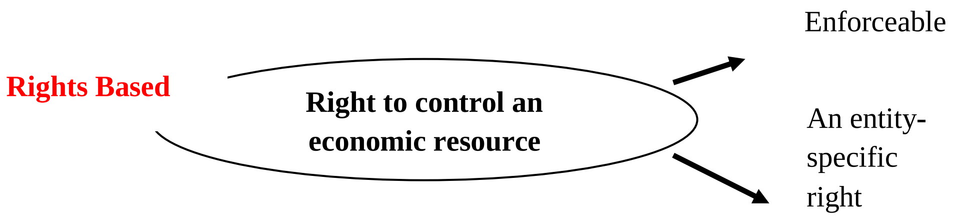


Diagram 6.15

The exercise of an entity's rights can be, not only for the purpose of appropriation, but, for the purpose of preventing access to certain resources. And so I asked:

[A business entity would want or would require a right to control an asset that effectively prevents others from competing with that business entity.] *I think that's true in the sense that your right must be… your right of access to the assets must be superior to those of other people in some sense so that the ability to enjoy sunshine and fresh air does not count as an asset, your ability to benefit from the rule of law, which some people have and some people sadly don't, is clearly something which is a benefit but I would not regard those as assets because they are…* ***[Because we can't prevent others from using it.]*** *That's right. I mean it's kind of like… If there is a well on your property and you have the ability to take water from it, which may not be established by law, I mean maybe you can't stop somebody up there from polluting it but that's never happened in the past and there's no reason it will happen in the future. That would be an asset. But if there's a well in the middle of town which anybody can go to draw water from then it's… I would say that's not an asset.*

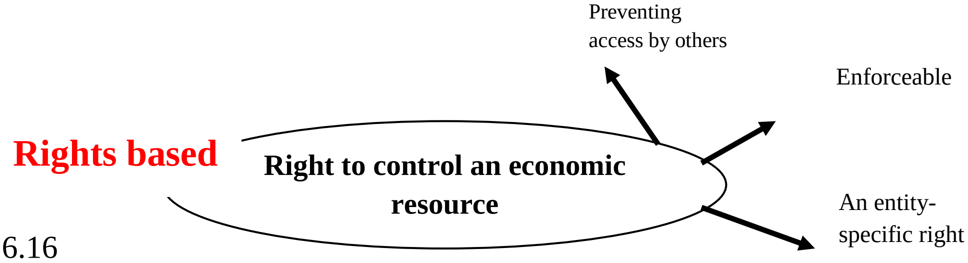


Diagram 6.16

For an economic resource to be recognised as an asset it should be scarce in nature. UK ASB director commented in the following terms:

Scarcity, yes. I think scarcity is a very good word, as understood in economics, and it simply means there are things that people are at least in principle capable of paying for, or willing to pay for, so the well in the middle of town, if it's freely available to the public, nobody has… there is no scarce resource there. If I've got a well on my property and a fence round it then it becomes scarce because I can charge others and expect others to pay for...I can fine them if they want it.... I accept there are degrees of scarcity, but that generally is reflected in price of an asset.

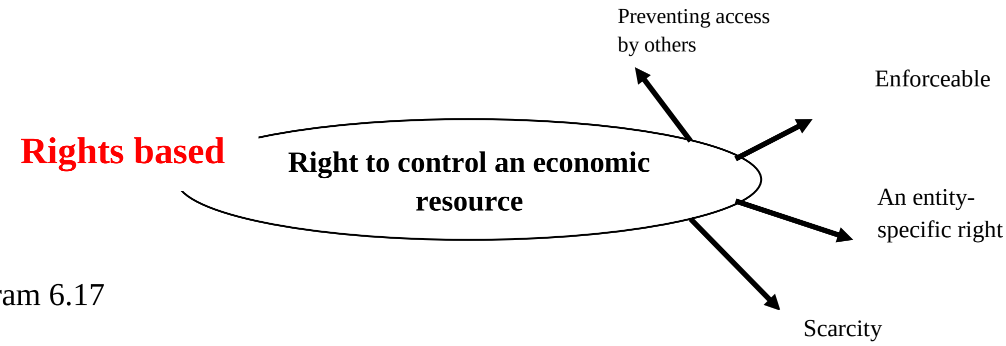


Diagram 6.17

As we saw in Figure 5.1 there are rights to use, right to manage, right to security, right to settle a debt, right to transfer, right to time horizons, right to residuary character, right to prohibition to harmful use. In respect of such rights, UK ASB director said:

For any economic resource, clearly the owner has a number of rights, and those will typically include those on this here, but equally it depends exactly on what the position is. You may have only one of those rights, or you may have all of them, or any combination. It depends on what's there. I mean if you own an asset that you've already pledged as security you don't have the ability to pledge it as security again, except in a subordinated kind of way. Possibly you may not even have that ***[So is it possible to have one or more? Even if it is one it becomes an asset].*** *Yes, I would have said so.*

These different types of rights to control an economic resource form subcategories of the general right to control an economic resource.

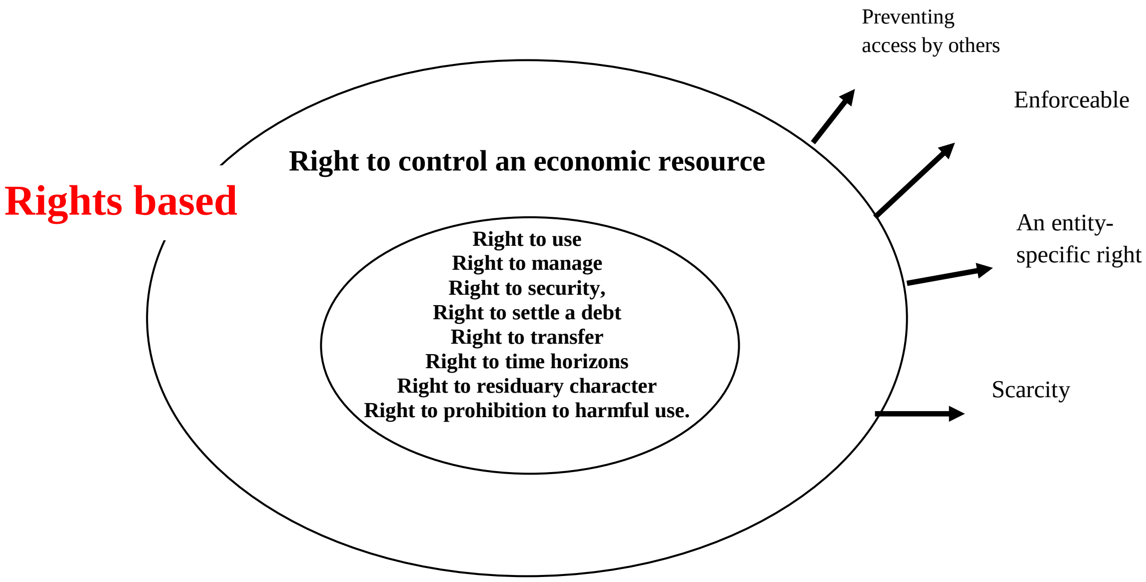


Diagram 6.18

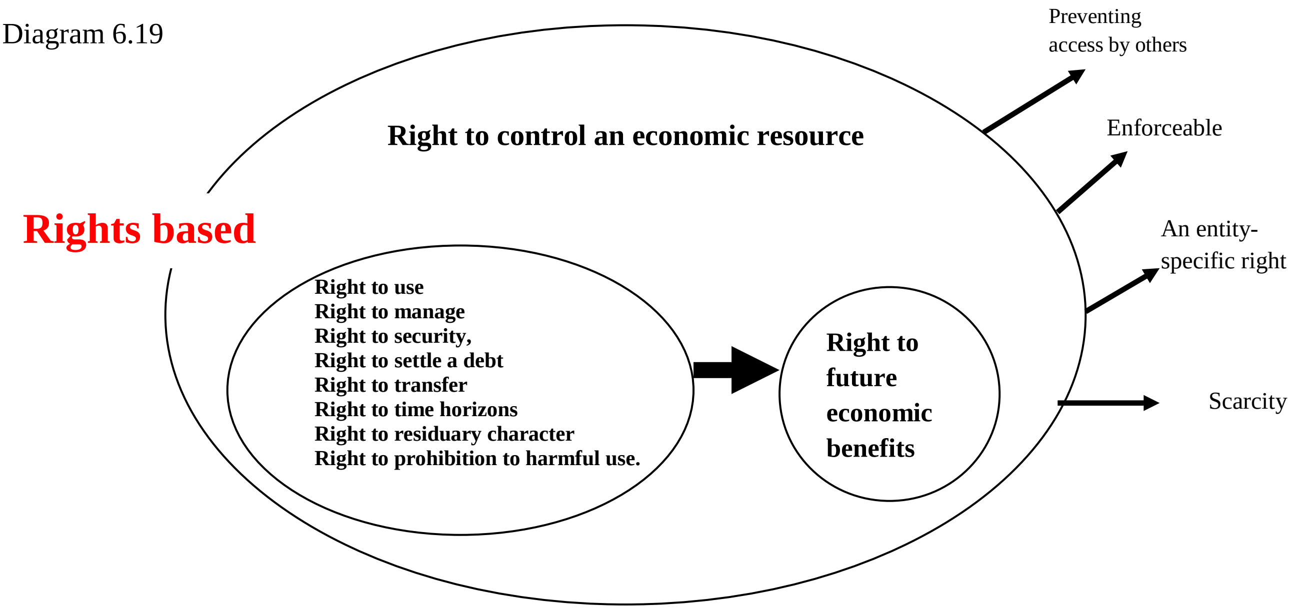
UK ASB director commented further:

*Well, future economic benefits generally come, I would have thought, as a product of the other rights. So if I've got the right to use a machine, the economic benefits come from the output of that machine. Ownership of the machine itself doesn't give me… well, it gives me a right to use, which is the…**[I should have the right to it. If I have a machine that produces economic benefits, I should have the right to these economic benefits].** I think if you've got the right to use it, or whatever in some of the others, also gives the right to transfer it. You've got the right to sell it. That will yield future economic benefits. For many assets that's the only right you've got, or the only valuable right you've got...[**So to make it a very clear point here, so I have first the right to control an economic resource].** Yes. [**Through the eleven features that we discussed, and then these will have the right to future economic benefit.]** The exercise of those rights will yield economic benefits as a consequence. [**As a consequence].** Yes. I don't see that it's a separate right. One of the reasons I find this important is I think it should be clear that what your asset is, is the asset that exists today and not what you expect to get out of the asset. If I've bought an equity share in a start up company, my asset is a share in a start up company. I may have reasons to believe that it's going to yield vast dividends and capital growth in the future, but all of those are future economic benefits. If I'm right they will come to me through ownership of the investment, but my asset today is the investment and not the future economic benefits.*

The first part of UK ASB director's comment is important because asset usage is linked to the right to transfer an asset and it is from the transfers, such as sales, that future economic benefits will flow. So, the capability to transfer an asset is of vital importance – hence, it became an axial core category. The last part of UK ASB director's comment is also important because, what he has perhaps inadvertently done is to distinguish between a right to capital (the investment) and the right to income from that capital. Comparing incident with incident, one can notice the difference between what UK ASB director mentioned and what IASB member (5) said in his interview "*Since income depends on what you define as assets, you can't use income in the definition of an asset. It has to be this notion of future economic benefits..... If you have control, you have right. I think it's control, which means it's mine, and it's economic benefits"* (see section 4.2.2.2). This means that the economic benefit generated by an economic resource does not have to be cash flows. In modern economic theory, the future income flows can be the means of determining the capital value (as with discounted cash flow techniques), whereas UK ASB director is very clear: "…my asset today is the investment and not the future economic benefits." The right to future economic benefits though is a probably one:

[Do you think these future economic benefits should be a hundred percent certain?] *No.* ***[So this means that there is a probability].*** *Yes.* ***[Because there is no hundred percent assurance about the future].*** *Yes, that's right. No asset is a hundred percent certain.* ***[So the word probable here comes as a dimension for the words future economic benefits.]*** *It's certainly future economic benefits are never a hundred percent certain.* ***[So it probably here comes as a characteristic of the future economic benefits. Do you agree?]*** *I agree, yes.*

Diagram 6.19



The rights as presented Diagram 6.19 are applicable to tangible, as well as intangible assets.

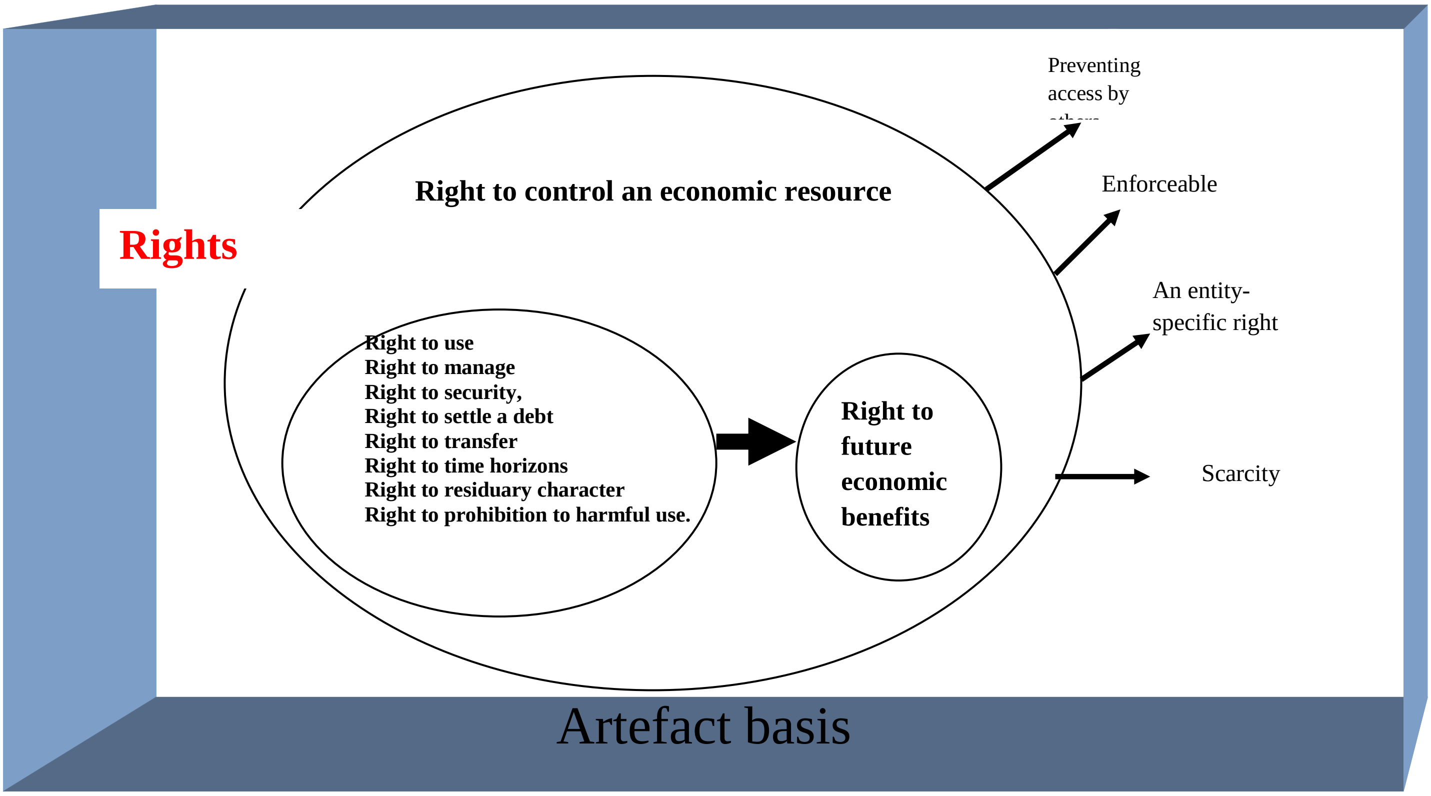
[The above rights, which we discussed from 1.5 to 1.14, may be attached to all type of assets tangible and intangible]. *Yes, I think that's probably true.* ***So we can have it in the conceptual framework instead of having only in one standard discussing, for example, the International Accounting Standard number thirty eight, or thirty - nine, or do you want them to be in the conceptual framework as a basis, as a foundation?]*** *I think one of the problems is we've not been very good as accounting standard setters in explaining what we mean by tangible and intangible assets, and I rather suspect there are probably several different classes that rather than just have tangible and intangible we should have probably – I haven't done it – but maybe there's a case for having five or six different classes of assets because basically tangible are things we think we understand and can't touch, and everything else is lumped as an intangible.*

An effective right is one that is supported by an **artefact.**

[What if you would like to broaden the area? Some of the authors of some of the conceptual frameworks tried to explain the evaluation basis. But what about if you would like to broaden it more? So I try to have another word like 'documentary' like artefact,' not only through the purchases and the legal rights, maybe anything. For example, I am using your example and I put it in my drawer, and this is already a right to have this secret and no - one will use it, so this in itself is an artefact for me]. *Yes.* ***[So why not expand the transaction base in a more broad area].*** *Yes.* ***[So I would like to make it in a more sensible way, so I put documentary, or an artefact, or physical].*** *Yes.* ***[So do you want the theory to be based on an expandable transaction base?]*** *Yes, the level of definitions I have no problem with, and I think that must be right. It may well be that if a car company has done no more than produce some drawings of a model it might produce in ten years' time then in principle it seems to me there is an asset there. It may not be legally enforceable. The drawings exist only for the purposes of the firm. They are not evidence to anybody else. But I would go that far, certainly.*

The artefact basis is the shadow beyond right - based as a concept.

Diagram 6.20

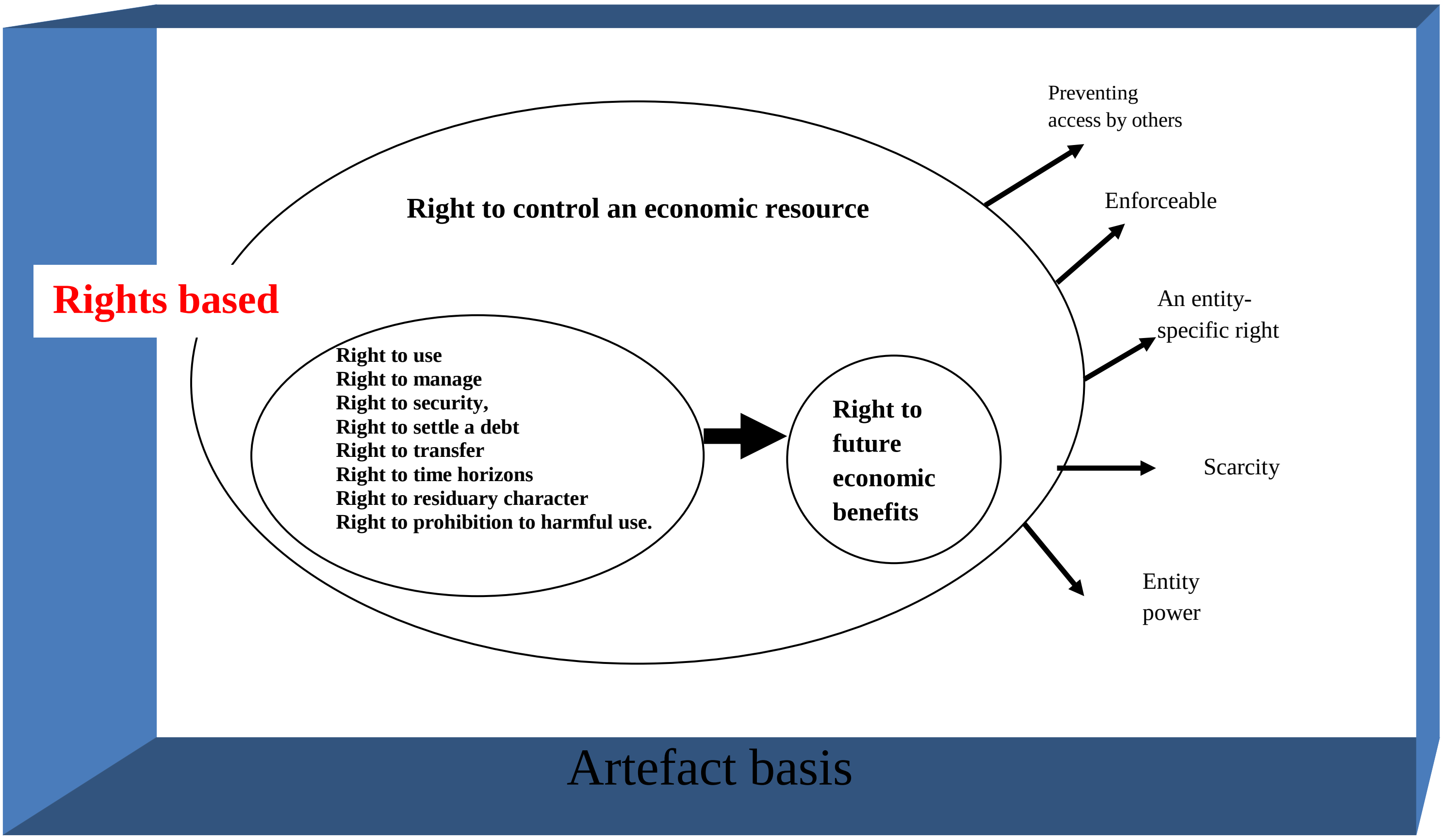


'Control' depends on the entity power, and this entity power ranges over a continuum of voluntary vs. involuntary.

[There is no right to control a human being unless one believes in slavery]. *I think that's probably true. It's clearly true in the extreme case that you can't have total control over a human being outside of slavery.* ***[Because the word control here, maybe it should be characterised by being we have the power to it, so the entity power wouldn't be able to apply it to him and to human resources. Yes, we may have the right to future economic benefits from those people under 'probability' because we may not be able, for example, to write a contract today to an employee and tomorrow you resign and go to another…].*** *Well, you can have… I suppose there are complexities with human beings. I mean there's no problem in having a contract that requires someone to perform in a particular way. I assume that if you're a football you have the right to require a player to turn up to play matches. You can't, as I understand it, for reasonably obvious reasons you can't enforce that right. You can claim damages though. That's generally a feature of contracts.* ***[So it's a feature of rights].*** *It's a feature of contracts that you cannot require the other party to perform, generally speaking. There is specific performance but that's a slightly special case, but certainly specific performance doesn't apply to contracts for personal services.* ***[So you have the right to control but you wouldn't be able to control it…]*** *That's right. On the other hand, if you've paid a couple of million quid to somebody to sign a contract with a football club* *you've probably got some kind of an asset there. You can also control a human being, I think, in the sense that you can prevent them from doing things for other people.* ***[That's why control, when it comes from the first… It can vary on a dimension from voluntary to non - voluntary].*** *Yes. So you can control a human being, at least in the sense that you can prevent them. I think that if a Formula One driver were to start driving for another team then the team they are contracted to would be able to take out an injunction and stop them, I would think. I mean I'm not a lawyer but that would seem likely. You could say that's an element of control.* ***[But in this point we can go back again to the word 'right,' not the word 'control.' So control should be accompanied by rights].*** *Yes. So in other words, I think what I come to is that you can have rights over human beings, even absent slavery, but that those rights are… well, they are often much more circumscribed than they are for other entities. It's easier to have rights with a corporation in a sense than it is for a human being, certainly for a human being as regards personal services. I think that's where I end up on that one.*

What this conversation highlights is that the existence of an artefact - based right is a - priori to the exercise of control but the ability to control is not guaranteed thereby. 'Control', instead, is dependent on the asymmetry of power between the controller and those beings or objects that are to be controlled. Clearly, in the case of objects, the asymmetry is in favour of the controller whereas, in respect of human beings, the asymmetry is more variable. I have presented both on a continuum from voluntary to non - voluntary control. The existence of rights enhances the power of the controller over that which is to be controlled.

FIGURE 6.2: RIGHT-BASED AS A CONCEPT IN ACCOUNTING ASSET RECOGNITION



<u>'Separable in nature' and its role in accounting asset recognition</u>

Unit of account: separable assets vs. bundle of assets

*I must admit I see two distinct questions and I haven't ever really thought of them as being part of the same. One question is if we're thinking about what assets we want to recognise, is it important whether they are separable or not? In the context of that question arises the issue of what do we mean by separable? Is it in principle? Is it economic? Is it some other sense of separable? The other question is when we put stuff on the balance sheet, in what units do we think we're doing it? I mean should we put buses on… should we put a thousand buses on the balance sheet individually, or should we put on a fleet of buses? That's what I think of as the unit of account…**.[the balance sheet should only show those assets that are separable from other assets].** I strongly agree.*

The separable asset is one where the unit of account of asset(s) is such that, whether such units are aggregated or not, the sum of the individual assets would equal the total of them and vice - a - versa.

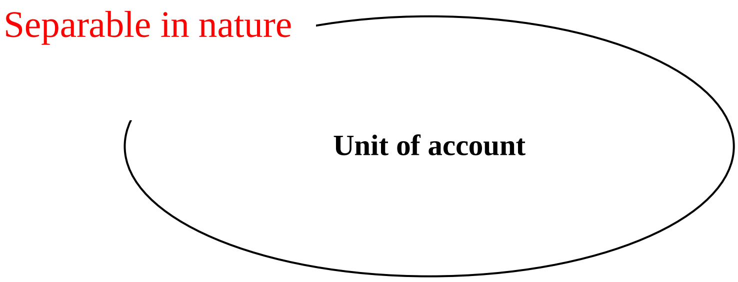


Diagram 6.21

However, as referred to previously, to view separability in terms of a unit of account is to view it essentially from a measurement viewpoint. There is a recognition viewpoint centred upon the right to transference. As UK ASB director mentioned:

I think that's probably true that there is a link between if you have a right to something it probably is separable in the sense that in principle you can transfer it.

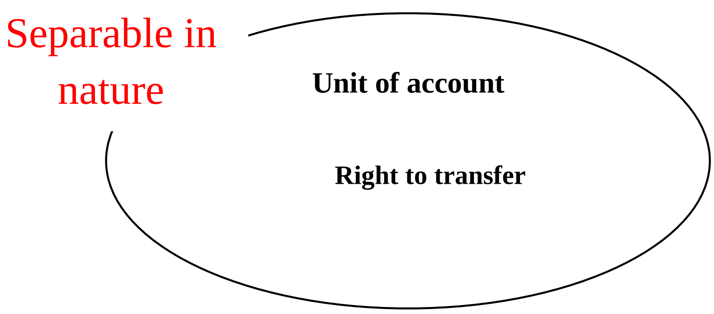


Diagram 6.22

Once one has determined that there is both a recognition and measurement element to the notion of separability then, for both elements, a policy decision is required to determine levels of aggregation or disaggregation for the disclosure of assets on the balance sheet. And at the moment, there is no such policy because, in addition to the type of type of asset, it is dependent on the type of business too. Consider the following two comments in support of this assertion.

[The level at which assets are either aggregated or disaggregated for disclosure purposes depends on the type of business]. *Agreed.*

[The level at which assets are disaggregated, or are either aggregated or disaggregated for disclosure purposes depends on the type of assets.]. Yes ***[For example, maybe a singing machine or an integrated production line].*** Agreed. I think what we're sort of groping for is something like, or something along the lines of at what level does the business actually deal in these assets, you know. If you've got somebody that buys and sells buses, you know, then the bus is the obvious unit of account. That's probably okay; although if they are between buying and selling them in their fleet you might worry about should I be separately depreciating the engines and the tyres. I mean there was a legal case about some trailers and their tyres were worn out. The point at issue was whether the tyres should have been separately depreciated from the trailers.

The level of aggregation ranges over a continuum from highest to lowest level of aggregation depending on the type of assets (see table 6.21).

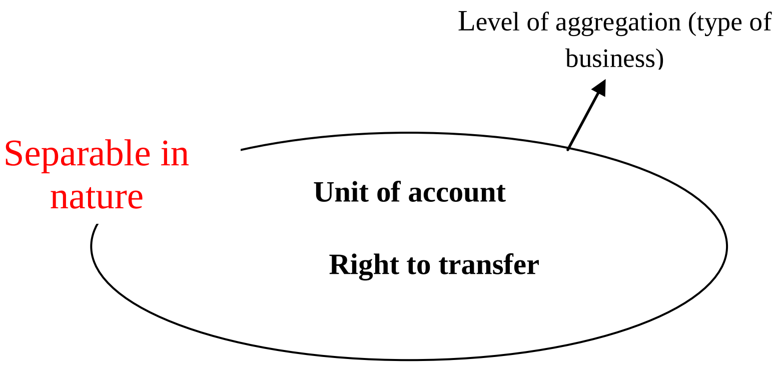


Diagram 6.23

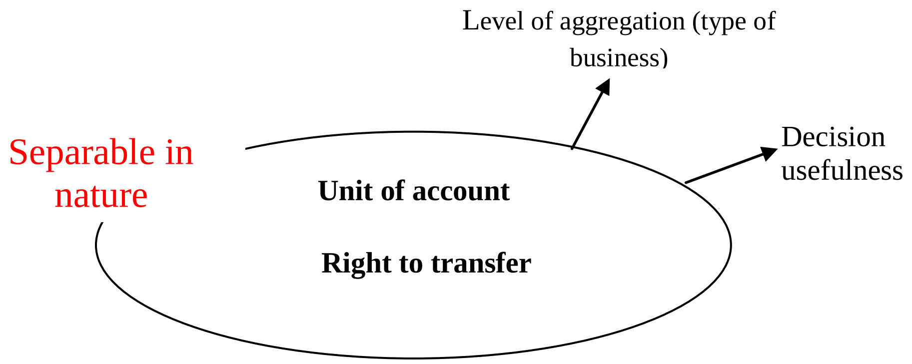
In the absence of a policy at which to set levels of aggregation or disaggregation then the decision making is left to the accountant. In this regard, the abstract concept of what is 'decision useful' comes into play. UK ASB director said:

[If we are going to consider a bus as a bundle of assets, can we sell its wheels?] *Well, this is one of the big issues with separability...but it's really discussed whether we mean something is in principle capable of being separately transferred, in which case the wheels from a bus are clearly separable assets and you could stick them on ebay and they'll have a scrap value if nothing else. Or do we mean it will be economically sensible to separate them?* ***[Yes.]*** *In which case it's quite likely that nobody in their right minds would ever sell them, so there are at least two very different senses.****[Yes, and we have to make a trade - off between them].*** *If we think separability is important then we have to decide in which sense we mean it because there are many assets like the wheel from the bus, which may well be in principle separable but not economically separable.[****Yes, but again a unit of account, or separability, or asset***

bundle, nowadays it's very important in nowadays environment.] *Yes. Yeah, I mean I've already said that I think decision usefulness is fine.*

The characteristics of separability are summarised in Figure 6.3.

FIGURE 6.3: SEPARABLE IN NATURE AS A CONCEPT IN ACCOUNTING ASSET RECOGNITION



<u>'Capable of being measured' and its role in accounting asset recognition</u>

Measurable assets should be recognised in the financial statements even if it has a zero value.

[So do you support the following statement: assets intended to prevent competition, or prevent pollution, or meets some stationary requirements may have a zero value that should nevertheless be disclosed on the balance sheet.] *I very strongly agree, except that I don't see exactly it would necessarily have a zero value because I think they are a necessary consequence of carrying out business. There's something that, you know, if the authorities say that you need to have fire extinguishers to run this factory then owning fire extinguishers is a cost of doing business and as such they contribute to the value of the business because without them you're not allowed to operate.*

A measurable asset is the one that is capable of being measured. If it is not capable of being measured it would not be recognised in the financial statements. So, 'a measurable asset' is the recognition characteristic, whereas, the subsequent act of asset measurement is obviously a measurement characteristic. Whilst a measurable asset may have a zero value it may still communicate decision useful information, for example, a pollution control asset indicating compliance with some legislative requirement.

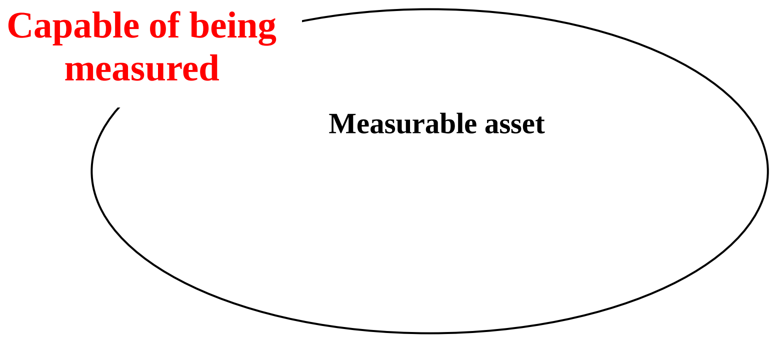


Diagram 6.24

An observable measurement is a property of a measurable asset.

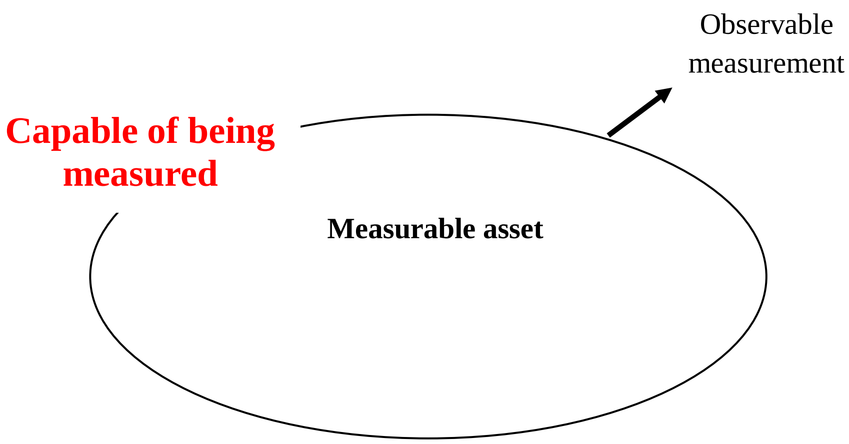
[asset measurement should be capable of being observed?] *I think you can get perfectly observable measurements that are derived by the business internally.* ***[So you are in favour with the entity specific measurement more than market specific measurement].*** *I am certainly in favour of entity specific measurements in many cases.* ***[So the observation of a measurement basis is restricted to past and present, not the future].*** *In a sense we can't observe the future, so the question is self - fulfilling. I think one can derive sensible measurement bases from estimates of the future. Value in use is the classic example and I think value in use does have a role in financial reporting – not a very big role but it does have a role.*

As the reader saw in respect of the earlier questionnaire responses, 50 % of the respondents did not support the idea that the observation of a measurement basis is restricted to the past and present, not the future. From the above comments one can see that UK ASB director is more supportive of my view that "In a sense we can't observe the future, so the question is self - fulfilling". However, it is also clear that there is a degree of reluctance to relinquish the use of future based measurements as a consequence – consider UK ASB director's attachment to value - in - use in the above quote. So, there is a tension here logic and pragmatism which is what I speculatively think I am seeing in the questionnaire responses too. Consider his further comments:

I support that a measurement for reporting in financial statements must be a past or present measurement basis, because measuring assets and liabilities existing at a point in time - but many measurement bases reflect measure of estimated future cash flows to result from an existing asset or liability (e. g. market value).

A measurable asset is one that is based on observation, whether entity specific or market specific, and observation is restricted to the past and present only. Yet, whilst one may logically accept that observations are restricted to the present, it is clear that the respondents want some predictive measurements too. However, if one mixes observation and prediction based measurements together, then the previous definition of separability is weakened because mixed measurement bases are inherently non - additive (ref aggregation and diaggregation).

Diagram 6.25



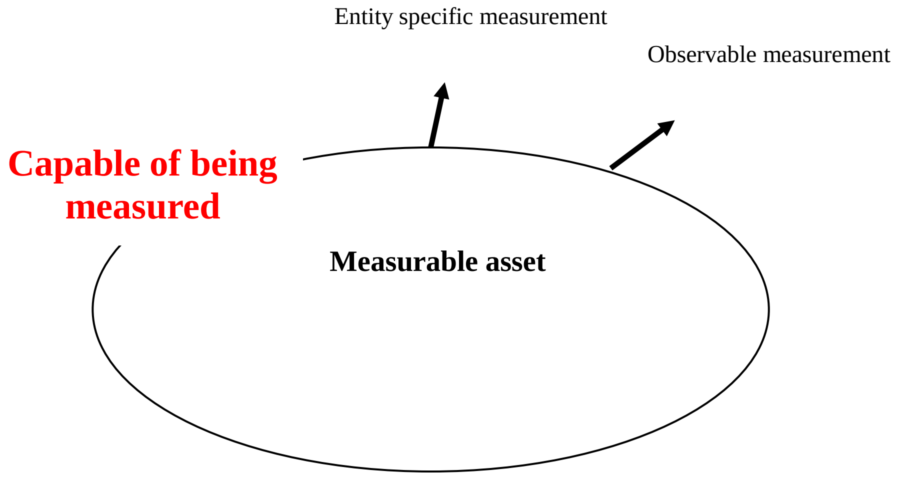
According to UK ASB director, the measurement basis should not be based on market value.

[Many asset measurements may not reflect the market values]. *May not and should not, would be my observation. I am not persuaded that market values should be the measurement basis in all cases.*

However, this undermines his earlier weak support for predictive bases such as value - in - use. Also, it is surely axiomatic that one can observe, daily, the movement in market values of many assets.

‘Observation’ and ‘prediction’ are mutually exclusive terms because they are time bounded, past / current and future, respectively. However, ‘entity - specific’ and ‘market - specific’ are not mutually terms because a value may be determined between a willing buyer and seller that is both *specific* to the parties and, at the same time, is reflective of *market* value, or not, as the case may be. It follows that UK ASB director is expressing a political policy choice here, which I would support and others may not.

Diagram 6.26



The use of mixed measurement bases does not necessarily violate ‘additivity’ as a possible characteristic of a measurable asset providing the measurement bases used are applied consistently for each type of asset and aggregated on that basis. However, the issue becomes more acute when one is attempting to disaggregate assets as part of a business acquisition, that is, where a fair value basis must be applied resulting in the potential for mixed measurement bases for the same type of asset, post acquisition. The simpler solution, though, is to have one measurement basis for all assets. UK ASB director’s comments were to the contrary and were supported by the questionnaire respondents too:

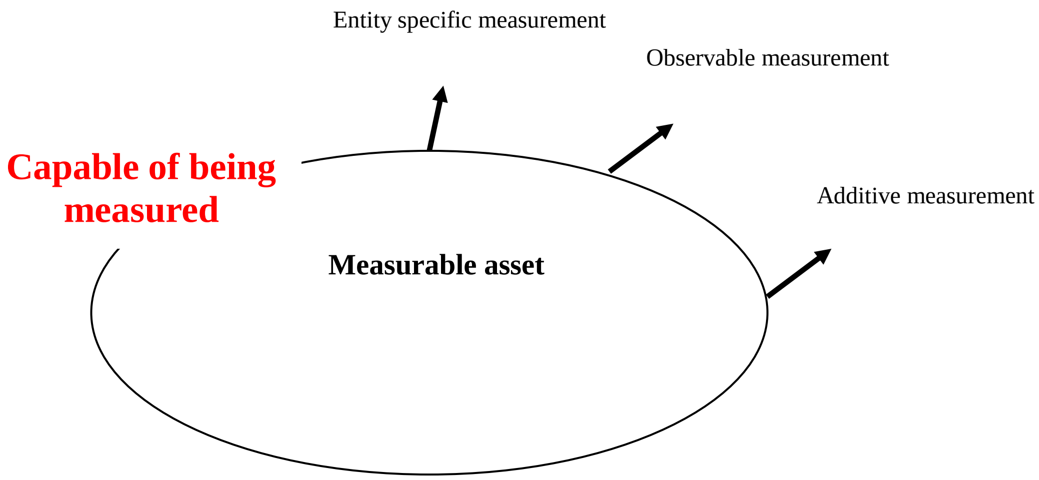
[Whatever measurement is applied in accounting, it should be single measurement basis or not one using mixed measurement basis]. *Very strongly disagree. I believe we need a mixed measurement basis because I believe that the function that assets fulfil vary across different businesses. If there are some assets that are surplus to requirements and can only be sold, which must be at net realisable value, but it would be a travesty to report all assets at their realisable value. ....* ***[Mixed measurement bases are currently non - additive in nature, despite the fact that they in practice are added together].*** *No. I think I disagree with that. I think it’s an interesting question because mixed measurement bases are often attacked because they are non - additive. I think that’s a bit of an overstatement, in fact quite a big overstatement, because what it draws attention to, I think, is one of the implications of the totals of financial statements have a clear significance and meaning, and I don’t think they do really. To the extent they do, I’m not sure how helpful they are. Outside are very simple* *examples like if you take an investment trust. The total value of all this investment is clearly quite a useful number, but for any real business the total is less significant. I think there's a logical flaw in that if you have different units and you add them together, you may end up with something which is a complete nonsense. I mean clearly if you add measurements expressed in metres with measurements expressed in inches the total means absolutely nothing. However, if you add oranges, apples, and bananas together you end up with a number of pieces of fruit. That's a perfectly sensible piece of information. It's not as informative as the total number of apples, or the total number of oranges, and the total number of bananas, but it's a perfectly sensible measure. And if all you want to know is do you have enough pieces of fruit to give everybody one, and you don't care…* ***[But what about the calories, if you would like to add the calories?]*** *Well, it depends on your purpose. If you are packing up for a school trip and all you want to know if do I have enough fruit to give each child a piece of fruit, and you don't care who gets which or whether they have a choice, then the number of pieces…[****But still they are non - additive].*** *I'm disagreeing. I'm saying they are additive because if I know the number of apples, the number of oranges, the number of bananas, I can add them up to get the number of pieces of fruit. I've added them together and the result is a meaningful one.* ***[But if you return back to the assets, all of them are money. I know that all of them are in pounds].****Yes.* ***[But the value of pounds is different, like the value of calories in each different piece of fruit. Apparently, they are additive].*** *Yes.* ***[Apparently, all of them have the same unit of money, which is the pound, but inside these pounds they are different].*** *Yes. I think one has to explore what is the mixture of measurement bases that are used to eat and then work out does that deprive the total of any value. And it seems to me that, for example, if your financial statements are purely historical cost but those costs were incurred at different times then one would say, well, probably any significance in the total is quite severely compromised; however, if you've got the value of recently purchased equipment at entry cost, and the net realisable value for old stuff is not at all clear to me that the total is necessarily meaningless.* ***[And that's why mixed measurement basis would be here… do you think we can add the word additivity as a characteristic for a measurement basis or not…]*** *I think additivity is… I think what this conversation is persuading me is that the argument that mixed measurement bases are non - additive is very much over exaggerated. I think that there's a question mark as to whether it matters anyway, which it only does if you do actually think the totals are hugely useful, and secondly it seems to me that just because the measurement bases are different it doesn't mean that the totals are devoid of value anyway, just as there is some meaning in the total number of pieces of fruit.*

A comment received from one of the respondent:

It seems that the best we can expect to do is to have an overarching model that enables selected of most appropriate measurement basis for particular assets or liabilities in particular circumstances - an articulated mixed measurement model.

From the analysis throughout this thesis it is clear that the questions I have asked, which seek to link additivity to the application of a single measurement basis, have been rejected at every opportunity. I have argued that as a result of perpetuating mixed measurements the accounting figures are inherently non – additive, but UK ASB director argues to the contrary in his argument, above, about whether one is measuring "…*the number of apples, the number of oranges, the number of bananas, I can add them up to get the number of pieces of fruit. I've added them together and the result is a meaningful one."* However, I would reject his argument as a re - run of the earlier 'levels of aggregation' debate. Therefore, the differences lie in a political policy choice as to the level of aggregation. Thus, if one wants to compare apples to oranges to bananas, rather than as pieces of fruit in a fruit bowl, then one needs a single standardised measurement.

Diagram 6.27

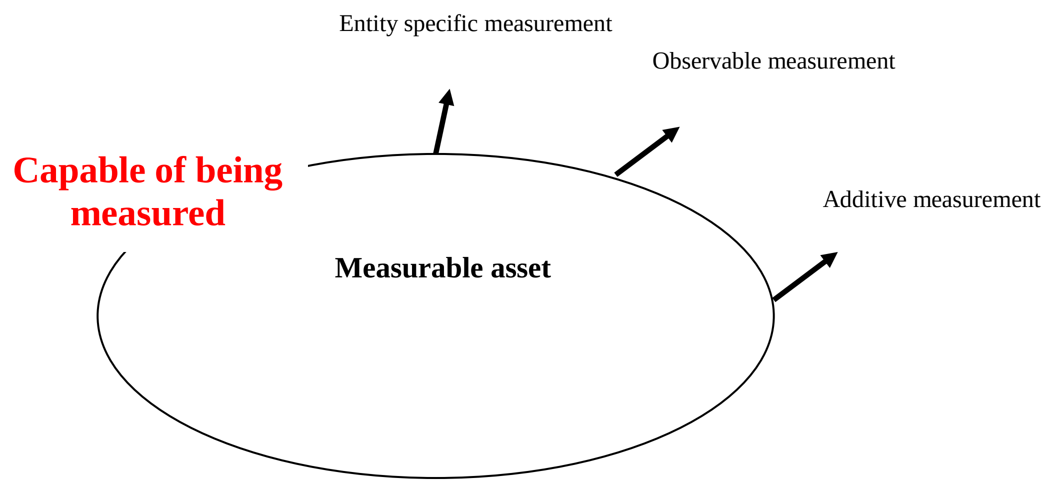


The questionnaire respondents confirmed: many asset measurements may not reflect the market values. UK ASB director's comment in that regard was:

[Asset measurement does not represent the value of current economic phenomenon]. *Well, it's certainly true under present practice because we've got historical cost, and this aspirational statement is probably also true because financial statements are limited in their scope and as to what they include. In particular, they don't include the future returns expected from assets. In my view we should restrict them to replacement cost but it is arguable that the economic value of the assets would in some cases, be greater than replacement cost, I guess.* ***[So do you agree or disagree with this statement].*** *Well, I think I'm saying I agree with it, with those qualifications.*

The overall position for this section is summarised in Figure 6.4.

FIGURE 6.4: CAPABLE OF BEING MEASURED AS A CONCEPT IN ACCOUNTING ASSET RECOGNITION



<u>'Asset epistemological basis' and its role in accounting asset recognition</u>

The principle - rules - definitions basis for asset recognition to occur is a social construction and an inherently contestable one to adopt. With this in mind I asked UK ASB director:

[Do you support the following statement? Many assets are not disclosed on the balance sheet]. *Yes, I agree that that's the case and I think it always will be, in my view, because as well as the things that we've talked about like market share that in my view don't meet the definition of an asset, there are also going to be assets that quite validly are not recognised.* ***[The balance sheet is self - referential. That is it represents what it prompts to represent and nothing more].*** *No, I think the balance sheet and financial statements on the whole should aspire to something… they should aspire.* ***[But currently?]*** *Currently, that statement is probably true.* ***[The balance sheet should faithfully represent economic phenomenon].*** *Tricky one. It's hard to say no but I think I do, and I think I do on a number of respects. One is, as we've always discussed on economic phenomena, there are always going to be incompleteness's in the balance sheet. That's partly due to the firmness of accounting, but more fundamentally, due to fundamental limitations on the accounting process. Also, because in some respects, and this is something that standard setters don't often say, but I think they ignore it at their peril, as they say, accounting is always going to be to some extent conventional, which sounds like a very damming criticism, except that conventions can be quite useful because they help to establish what is actually there, what is not, and on what basis it has been measured. For example, the ASB has recently proposed that pension liability should be discounted at a risk free rate, notwithstanding the way that we propose the calculation would be done would leave a lot of riskiness in those cash flows. We're not* *making that proposal because we think it's a faithful representation of economic realty, but rather because there is no good way of getting an economically faithful representation anyway. And we take the view that using a risk - free way is a convention but it is a robust convention and people know precisely what that number is, and thus what it represents. And if they so wish they can flex from that base and they can compare it with others far more readily than if you were to say: you should increase your discount rate a bit to reflect risk. I mean that's just hopelessness. Some people would add on two percent, some would add on three, and the differences would be vast.* ***[So you are not in favour of this word, or neutral].*** *No, I think I would say no with that amplification. I mean I would be deeply upset if UK ASB director said the balance sheet should not faithfully represent economic reality - end of sentence - because it gives rise to a number of issues that I've explained.*

So far the qualitative analysis in this has followed the order of the four sub - sections of section 6.2. I will now link them together starting with rights and separability.

[If we are going to go into the way of separability, so you are going to have… you would like to have the right to transfer the asset]. *In principle.* ***So there is a point here which we can have an intersection between the words 'rights based' and 'separable in nature.'*** *Yes. It could be, building on what you said earlier, that the purpose of separability and the reason why it's important is because it's quite a good way of helping you identify whether in fact you have the right.* ***[That's why I put here 'right to transfer' as an intersection point between both of them.]*** *Yes.*

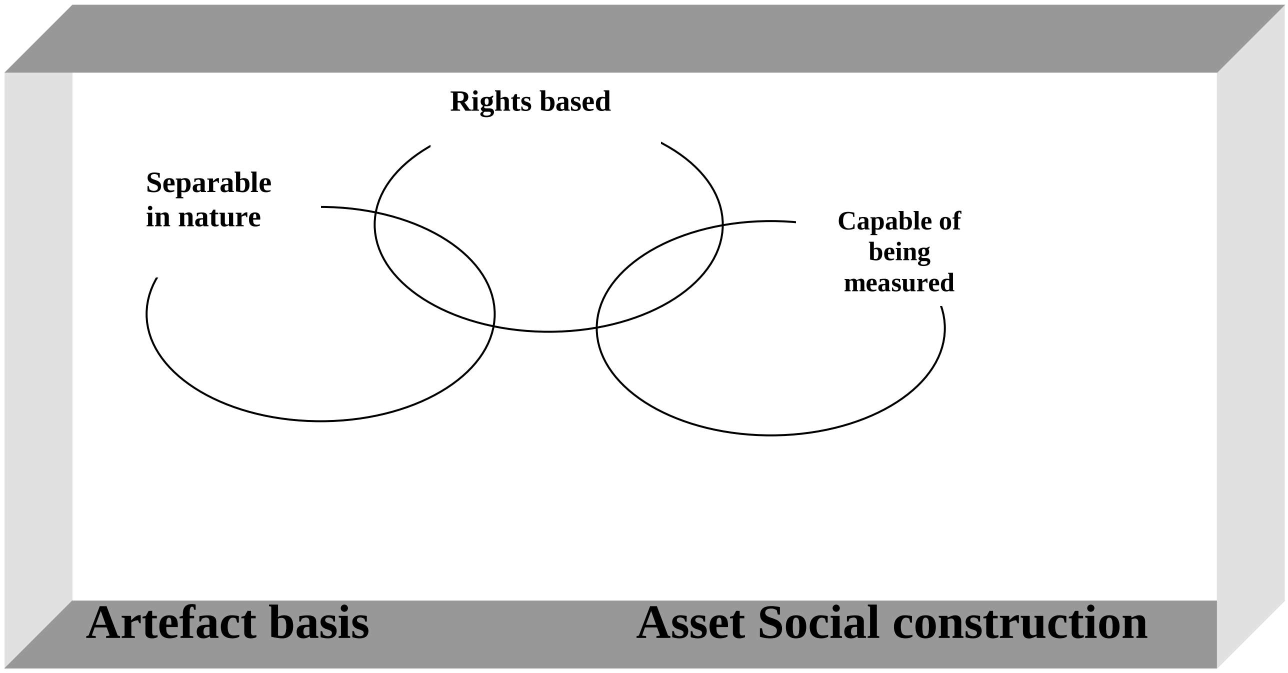
Whilst I acknowledge the valuable contribution of Napier and Power's (1992) notion of "measurement separability" I would argue that separability is, first and foremost, a recognition issue. And, since there is no tangible resource to recognise in respect of an intangible asset, those resources are, in effect, legal rights which are given a physical existence in the form of an artefact, typically a documentary one. So, whether the artefact accompanies a tangible asset or an intangible right, both can be recognised as being separable. The connection, though, between separability and rights is the ability to transfer the rights to another party and for that purpose the receiving party is bound to want some evidence (the artefact) that the right has passed to them.

One can also make the link between rights and measurable assets in that there is a right to capital vested in the asset and that this capital should be measurable. There is also a right to the income from that capital investment which should also be measurable. But, a key feature of this thesis is that there does not have to be income for an asset to be recognised. To repeat UK ASB director's comment:

I think it should be clear that what your asset is? It's the asset that exists today and not what you expect to get out of the asset. If I've bought an equity share in a start up company, my asset is a share in a start up company. I may have reasons to believe that it's going to yield vast dividends and capital growth in the future, but all of those are future economic benefits. If I'm right they will come to me through ownership of the investment, but my asset today is the investment and not the future economic benefits.

I can link these three features together in Figure 6.5, below.

FIGURE 6.5: THE FINAL GENERATED THEORY FOR A PRE - MEASUREMENT PHASE FOR ACCOUNTING ASSET RECOGNITION



6.3.3 Selective Coding: Discussion

Reviewing the results of the questionnaire, and the UK ASB director interview, revealed the interrelationships between the concepts and how they are integrated into the structure that was initially presented in Figure 5.1 to 5.4 and largely confirmed here in the selective coding stage in Figures 6.2 to 6.5. This should achieve the main objective for this research which is: ***to induce a theory for the pre - measurement phase of the asset recognition process in the financial reporting domain, one that is centred upon the use of the induced asset recognition criteria which are applicable to all assets.***

The three circles of Figure 6.5, however, should be considered in more depth, now.

The first circle in Figure 6.5 concerns separability. Separability is not a new concept if only because it is one of the recognition criteria presented in IAS38 (IASB, 2004) in respect of intangible assets. However, it is not contained in any of the definitions of an asset in the accounting domain. My social construction simply extends the use of separability as a basis for the recognition of all assets, if only for the sake of consistency of treatment. I know from the literature, but also from the respondents, that a common and perhaps one - sided view of separability is taken from a 'measurement only' viewpoint. So, for example, the Napier and Power (1992) notion of "measurement separability" is based on the rather weak argument that if one can measure an asset *de facto,* one has simultaneously recognised it. Another measurement only view towards separability is found in the respondents' comments on the unit - of - account issue: does one measure the value of a machine or the whole production line of which it is a part? Clearly such a question is linked to related concerns such as whether asset bundling should take place (the whole production line is the disclosed asset) and, if so, the level of aggregation at which asset disclosure should occur, and the decision usefulness of such levels of disclosure. However, there is another side to separability which takes an asset recognition viewpoint; a stance that I have argued is logically *a - priori* to asset measurement. That recognition viewpoint of separability adopts the Companies Act position of assets which are capable of being exchanged or discharged. I have placed such characteristics under the general banner of a 'right to transfer' an asset whether that is, say, in respect of a purchase or a disposal, respectively. Both the recognition and the measurement elements of separability are presented in Figure 6.3, previously. Support for the recognition element of separability might have been stronger in both the interviews and the questionnaire but they are, nevertheless, sufficient for the purpose of induction.

One suspects that for some respondents (for example, see IASB member (2) 's comments in the open coding stage) the use of a 'right to transfer' an asset as a core category would be rejected because of its similarity to the legal and historical foundations of accounting as one that is based on transactions. However, I am talking about a *capability* to transfer here which may or may not lead to an *actual* transfer, such as that which would occur in respect of a transaction. Thus, the door remains open for those who would value an asset based on such capability whether a transaction actually occurs or not. Let me explore this further. Clearly, a car is capable of being physically transferred, whereas an intangible asset is not. So the problem remains: how do I show that an intangible asset is capable of transference. The answer is expressed in terms of a physical surrogate or artefact as shown in figure 6.5. In respect of a tangible asset, the artefact is obviously the vehicle itself, but also the vehicle log book and / or bill of sale. However, in respect of say, a patent, the artefact (patents letters) is the principal way of establishing a capability to transfer an invention from one person to another. What ties both of these capabilities together, whether tangible or intangible, is the fact that in both cases 'rights' are being transferred at the same time. And as regards the tangible asset, it is not that the car exists that is pertinent, it is the fact that I alone have the right(s) to it. Therefore, when one refers to a capability to transfer an asset one is fundamentally talking about the transference of rights, addressed next.

The second circle in Figure 6.5 concerns rights. The types of rights are summarised in Figure 6.2. What this Figure shows is that the issue of rights is much more broadly based than just in respect of a right to an economic resource and / or economic benefits. Much depends on how one interprets the term 'economic benefit' other than just in respect of future cash flows. A cash flow viewpoint is essentially a 'measurement only' viewpoint, one that is based on asset's capability to produce wealth. But the point here is that one cannot keep on doing that if, for example, sustainable growth is sacrificed. Thus, the issue of asset recognition cannot be considered independently of social norms, including:

- A determination as to who has the right to pollute from using an asset and who must pay for it.
- A determination of who has access to scarce resources.
- A determination of where a right to an asset is located, such as in a business entity.
- An understanding that the rights to an asset can be as much about preventing others from gaining wealth as it can be about appropriating wealth for oneself. And thus…
- A determination of the extent to which a right to an asset can be enforced.

Rights are typically seen as being 'attached to' an asset. However, in respect of intangible assets, there is nothing to 'attach to' and, thus, the right potentially becomes the economic resource as physically evidenced by the existence of an artefact. This stance is a recognition stance, not a measurement stance. With a recognition stance one recognises an economic resource as a collection of rights, one of which is the 'right future economic benefits', but this is not the only right and it is not necessarily applicable in every case where an asset is to be recognised for disclosure purposes. Thus, one may have an economic resource which has value to the business (for example, in ensuring compliance with some pollution control legislation) but, of itself, it does not produce future economic benefits, if those benefits are interpreted in terms of future income or cash flows. This last point is important in that, from a measurement viewpoint, one can see in it the separation of the capital value of an economic resource and the income associated with the creation of future economic benefits from that resource assuming the latter takes place at all. From a measurement only viewpoint, however, the determination of future incomes can often be the simultaneous means of establishing a capital value too – the one is directly linked to the other. Since, that 'measurement only' viewpoint is rejected here, let us look finally at the issue of what should be measured?

The third and final circle in Figure 6.5 concerns capable of being measured. UK ASB director is clear about the separation of capital and income. Both the capital investment and the related income are potentially measurable. However, whilst cannot ignore the obvious link between them, it cannot be guaranteed in every case. One only has to look at human capital to realise that the investment is either expensed or subsumed within a tangible asset, and, rarely is that investment disclosed as a separable asset (except footballer transfer fees). So, accurately determining the capital value, let alone the income, from such uncertain sources of capital becomes somewhat problematic and speaks about the difficulty of measuring human capital in terms of financial capital and whether one should do so at all. From such examples one can discern that there are economic resources available to a business entity that may not make it on to the balance sheet. They mostly do not do so because of the difficulty of measuring either the capital value and / or the income from such 'assets'. However, in adopting a recognition stance in this thesis I would support UK ASB director's view that it is possible to recognise and disclose an asset at a nominal capital value that is largely independent of an asset's ability to generate future economic benefits, which might be zero anyway. Thus, an asset may be measurable, but the measurement may be a negligible one. The critical recognition point here is that an asset is measurable. So, to return to the human capital example, the capital is not measurable because, unless one believes in slavery, there is no control over it and even where it exists it is located in the person and not the business entity. So, the first point to make is that a measurable asset is one that is located in the business entity – see Figure 6.4. The subsequent measurement may be made by reference to the market place, but that is a measurement issue, not a recognition issue.

There are two more criteria that are pertinent to establishing whether one has a measurable asset, or not – see Figure 6.4. They concern the parameters for choosing a measurement basis – a recognition stance, not a measurement stance. The first one concerns the observation of a measurement as one that is located in the present or the past and not the future, otherwise, the measurement must be a predictive future - based one. The second one concerns the acknowledgment that accounting figures are inherently non - additive in practice and that the advancement of single measurement basis in order to improve additivity would be unlikely to happen. And the two issues are linked because as soon as one accepts, as a political policy choice, that mixed measurement bases are 'acceptable', then one is also tacitly accepting mixed time frames (past, present and future), that is, the mix of predictive and observable mixed measurement bases which are of an inherently non - additive nature. That does not stop one from inducing, from some comments of some respondents, a social structure that is based on the ideal: an observable single - measurement based asset measurement for all assets, whilst acknowledging that in reality it is unlikely to happen. Certainly, the respondents were strong supporters of the existing mixed measurement basis to accounting.

The right based is also pertinent because the exercise of control is for a purpose (use, transfer, etc) are all features of an asset's functionality. Where that purpose is to create economic benefits, where they should be capable of being measured, where one can find it in the interesting point between right - based and capable of being measured.

The strength of this tripartite structure, is that, first, it is applicable to tangible and intangible assets alike and, second, it is not dependent on an asset definition, the accounting for asset based recognition should have two stages; a pre - measurement stage (as shown in Figure 6.5), then the process of assigning a figure based on the criteria of choosing a suitable measurement basis discussed in the measurable asset section above (see Figure 6.4).

6.4 Summary

In this chapter the final data collection was interpreted for the purpose of the selective coding analysis. In the first section, the questionnaire design was discussed based on the axial coding matrix explored in the previous chapter. In the subsequent section I discussed the related statistics and a qualitative analysis of an interview conducted with UK ASB director, the ASB research director. In the final section I finalised the generated theory for a pre - measurement phase for the accounting for asset - based recognition. In the next chapter I will locate this theory in the existing literature and I will then compare the generated theory with the existing theory for asset based recognition in the conceptual framework for financial reporting.

Chapter Seven: The Research Generated Theory

7.0 Introduction

The social construction that emerges from chapters four, five and six has already been summarised at the end of chapter six. What I need to do here is to point to the key features of what has emerged and compare those key features to the literature in order to differentiate them from the literature and thereby highlight the contribution made by my research. As regards this approach Strauss and Corbin (1990, 1998) recommended the use of an extant literature review as a step towards the final stage for the generated theory. In addition, Parker and Roffey (1997) mentioned the use of literature review in accounting researches during the final stages of the grounded theory. Likewise, Locke (2001) recommended the grounded theory researcher to locate the generated theory within the literature to ensure the validity and reliability of the generated theory.

This chapter is structured as follows:

Section 7.1: 'Rights - based' asset recognition within the context of Conceptual framework and the existing literature.

Section 7.2: 'Separable in nature' within the context of Conceptual framework and the existing literature.

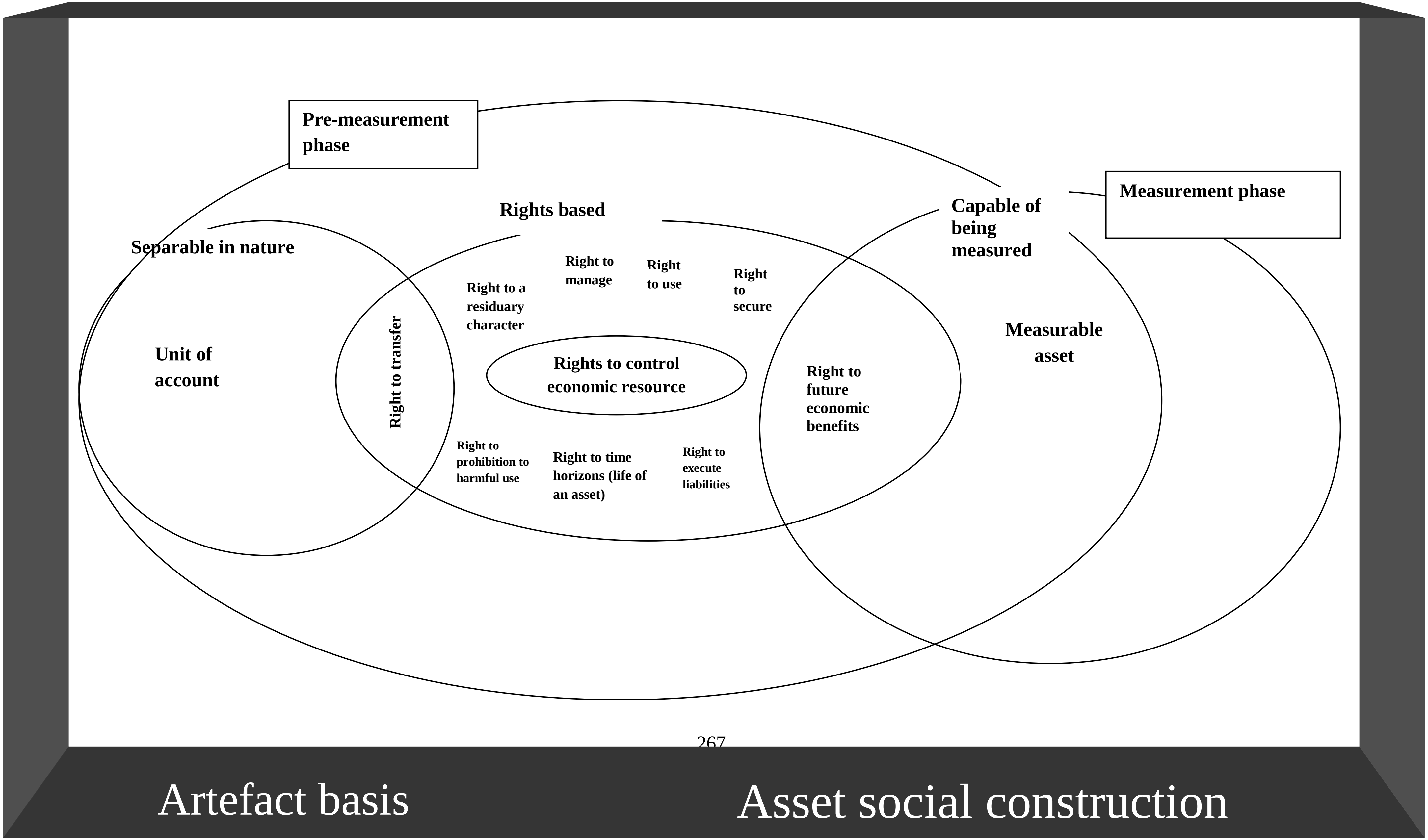
Section 7.3: 'Capable of being measured' within the context of Conceptual framework and the existing literature.

Section 7.4: A summary of what emerged from the generated theory.

Section 7.5: Application of the pre-measurement recognition criteria.

Section 7.6 Summary

FIGURE 7.1 THE ASSET BASED RECOGNITION PROCESS: THE RESEARCH GENERATED THEORY



7.1 'Right - based' within the context of Conceptual framework and the existing literature

As stated before in chapter two, the latest revision to the International Accounting Standards Board's (IASB) definition of an asset is from:

"A resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise" (IASB, 2001, CF 49, 53-59),

to (working paper)…

"An *asset* is a present economic resource to which an entity has a present right or other privileged access" (IASB, 2006-d, p.4),

to (working paper)…

"An *asset* of an entity is a present economic resource to which the entity presently has an enforceable right or other access that others do not have" (IASB, 2007, p.2).

The epistemology here is definition - based and definitions are inherently limited. Consider what Gerboth (1987, p.2-3) has to say in that regard:

"…the existence of definitions matters hardly at all in deciding most issues of real - world consequence. Their contribution is to add brevity to discourse. The attempt to make them convey essential knowledge is a two - thousand - year - old source of obscurantism. Other respected disciplines are not even concerned about the precision of their definitions."

Clearly, IASB are "concerned about the precision of their definitions" or they would not have considered the above revisions to the definition of an asset. However, I would argue Gerboth is correct and that **an alternative epistemology to one that is based on definitions could be one that is, instead, based on asset recognition criteria.** I would argue that this alternative epistemology is more searching as to the nature of an asset because one can express that nature in terms of its component features which cannot be encapsulated in a single definition. So, the closest that the IASB comes in that regard is their reference to a "resource" in the above CF definition, but as Weetman (1989) rightly points out: all that happens is that the need to define a resource replaces the need to define an asset. The net effect is that **the definition approach is ineffectual in determining the asset status of expenditures in terms of their nature because that constituent nature is not specified other than in terms of what an asset does, that is, produce economic benefits.** I think Booth (2003, p311) got close to the constituent nature of an asset when he asked:

"Are assets 'rights', from which an entity expects to derive future economic benefits, or are assets the future economic benefits per se?... A right is recognized as an asset if it is reported on, or incorporated in amounts reported on, the face of the financial statements of an entity."

The two key features of the latest asset definition (IASB, 2007) are "enforceable right or other access" and "a present economic resource". There is a confirmation here between what the IASB is thinking and what emerged from the theory, except that in my case the rights are specified in Figure 7.1. Booth (2003, p322) suggested that the asset definition should be characterised by:

"(a) Rights; (b) Controlled by the entity; (c) In the conditions at the reporting date; from which (d) Identifiable future economic benefits are expected to flow to the entity".

In both cases, one can see the link between rights and either economic resource or economic benefit. But the point to be made here is that **what emerged from the analysis is that the accounting recognition of 'rights' is more broadly based than just in respect of its ability to produce economic benefits. Thus, assets may be recognised with a nominal value if they are, for example, used or just held in order to prevent competition or used only in compliance with legislation, as with pollution control assets.**

As regards to the 'rights', Oxford Dictionary defines **'Rights'** as a moral or legal entitlement to have or do something, the authority to perform, publish, or film a particular work or event. 'Rights', as a noun, can be thought as 'entitlements' of the entity to an economic resource unless one is dealing with an intangible asset, in which case, the ‘entitlement’ is over human action, such as preventing competition or copying. ‘Rights’, here, means that they are your rights rather than another entity’s rights. Since, rights may be established by customer and practice they do not have to be owned (Foss and Foss, 2001), but the issue of enforcement may then be a troublesome one in the absence of a legal artefact. This can be applicable to all assets, but in case of an intangible economic resource (a tricky concept), it should be recognisable in terms of a surrogate artefact establishing a separable, physical and verifiable resource. For example, the artefact could be a diskette or a document: a physical carrier of, say, encoded software or a physical pictorial representation of, say, a trademark, respectively. However, in terms of the related economic benefits to an entity, they can be easily appropriated by another entity (downloading and scanning respectively) unless there is a possessive enforceable right to prevent another entity from doing so: copyrighting and trade mark registration, respectively. In most cases, this enforceable right should be a legal one in order to provide a firm basis on which to seek legal redress such that any appropriation may be rightfully redirected. **The problem for those who would deny the existence of a legally backed artefact for intangible asset recognition is that the “present right” or “enforceable right” in the previous IASB definitions of an asset then becomes the “resource” and vice versa in respect of intangible assets – a conflation. Either that or one is left with a right to an economic benefit from an indeterminate resource for which the only logical candidate is the right – again, a conflation. And, if one accepts this reasoning, then the latest revised definition of an asset (IASB, 2007) is tautological in nature as regards its application to the recognition of intangible assets**: An *asset* of an entity is a right (if rights are resources) to which the entity presently has an enforceable right or other access that others do not have. In addition, the definition refers to “enforceable right or other access" without specifying what they are. This is why I argue the case for criteria - led approach rather than a definition - led approach to asset recognition.

The generated theory also highlights the link between an economic resource and the right to it through 'control'. Indeed, as Booth (2003, p322) argues:

"... the concept of the capacity to control is adopted as an essential characteristic in the identification and recognition of most rights."

Thus, it is possible to comprehend the right to control an economic resource at the top of a hierarchy in relation to the other features firstly introduced by Honore (1961) for example, control over future use, control over transference etc. One can go further on the issue of control by arguing that **it is not a function of an asset per se, rather, control of an asset, is about the power to decide what to do with it (see Fincham, 1992 on Power and Giddens, 1984 on the dialectic of control). This view of control, though, is people - based, not rights - based, and, crucially, it relies upon voluntary compliance. With a rights - based view of control it is vested instead in the artefact. In respect of the entity power, the respective distinction to be made here is between voluntary and involuntary control, unless one believes in slavery.** This is one important reason why human assets are unlikely to appear substantively on the balance sheet because there is no *right* to future economic benefits, only that capability should the person decide to cooperate to that end. It may be argued, therefore, that any 'asset' that remains tacitly vested in the person is not an asset for accounting purposes because the right to control is not vested in an entity, but remains, instead, with the person(s).

"Involuntary" control means that the right to control an intangible asset has been separated from the person who created it. How does one know that it has been separated if the 'asset' itself is not physical? One makes it physical and legally separable through the creation of a surrogate artefact – see Johnson (2002) on the similar notion of "structuralisation". That artefact specifies *what* can be controlled, not necessarily *who* is currently doing the controlling. And '*what can be controlled'* by the holder of the artefact is a right to permit or prohibit a specific course of action, such as preventing anyone from copying a specific item.

7.2 'Separable in nature' within the context of Conceptual framework and the existing literature

I now turn my attention to the issue of separability in the literature and what emerged from my analysis in order to confirm, or not, that assets recognised for accounting purposes should be 'separable in nature'. The Companies Act 1985 Sch.4A, 9(2)) refers to the separable asset as being capable of being disposed of or discharged separately without disposing of a business of the undertaking. However, disposing of or discharging an intangible asset is clearly problematic without some evidence to that effect. Hence, there is a need for a surrogate artefact in respect of intangible assets, in particular. This view of separability though is recognition based. There is no mention of measurement here. However, one can see from the literature that there is the opposite notion of "measurement separability" based on the logic that if one can measure an asset then de - facto one has simultaneously recognised it (Napier and Power, 1992). Unfortunately, it was clear in the open coding stage that the understanding of 'measurement separability' was either not fully grasped, not explained fully by myself, or both. It is correct to reject this notion anyway based on the following simple and compelling logic: **one first needs to recognise an asset *before* measuring it and not vice versa, otherwise, <u>one cannot be too sure what one is measuring</u>. The reverse argument that if one can measure an asset, de - facto, one has simultaneously recognised it cannot be a compelling one for the reason given (underlined).**

There was another view of 'separability' that emerged from the respondents. The analysis showed clear links to the unit - of - account issue, that is, where the business entity decides the level of aggregation to adopt for disclosure purposes. For example, is a machine separable from a production line and, even where it is separable, should the separable asset for disclosure purposes be the machine or the production line, particularly if the loss of the machine makes the production line obsolete? And, as the IASB rightly acknowledges, this is an asset recognition issue as well as an asset measurement related issue:

"The unit of account determines the level of detail / aggregation at which assets are recorded. This can affect both initial recognition and measurement, subsequent measurement and derecognition as well as presentation in the financial statements" (IASB, 2006-c, p.2).

One has to say that the unit - of - account is an unresolved issue. Consider again the comments of IASB member (1) , from the open coding stage, as being representative of this conundrum:

"I have been on both sides of the question as to whether they have to be separable or not. I don't think the answer can be yes…Let's assume that I've got four things and I use them as a unit. Maybe I could sell three of them separately, but I can't sell the one. I don't know whether it's important? Maybe it's just labelling. If I label this as four assets do I get a different answer? If I label it asset one, two, three and four? I don't know whether this is all just a unit - of - account measurement issue, or whether it is definitional and recognition - based?"

What does emerge though from an asset recognition stance is that a separable unit - of - account is one that is capable of being transferred (see Figure 7.1). As IASB member (2) succinctly put it in the open coding stage:

"…separability is important because there is a notion that when you have control over something you can transfer it".

Of course, one can have a separable bundle of assets and a separable individual asset, which are both capable of being transferred separately from the other assets of a business.

Conversely, there are ‘assets’ like purchased goodwill which are inseparable from the other assets of a business. Also, there are immovable assets where only the rights to the asset are capable of being transferred. One is, in effect, dealing with a policy decision here. That said, there were many respondents who supported the idea of separability as a key recognition feature (a missing feature from the asset definitions) as, indeed, I would in respect of Figure 7.1. However, once one accepts this policy led stance, numerous implications arise. For example, whether to bundle assets or not and, if not, the decision as to what constitutes an appropriate level of aggregation for the type of assets and the type of business. That is why I say it is an unresolved policy issue and one that is highlighted for further research. In this regard I will leave the last word to UK ASB director again (underlining added), first, in further support for ‘capability to transfer’ as a core category, second, to show the unresolved problem of setting levels of aggregation associated with that capability:

> *Well, this is one of the big issues with separability...but it’s really discussed whether we mean <u>something is in principle capable of being separately transferred</u>, in which case the wheels from a bus are clearly separable assets and you could stick them on ebay and they’ll have a scrap value if nothing else. Or do we mean it will be economically sensible to separate them?* ***[Yes.]*** *In which case it’s quite likely that nobody in their right minds would ever sell them, so there are at least two very different senses…*

7.3 ‘Capable of being measured’ within the context of Conceptual framework and the existing literature

According to Solomons (1995, p49):

“Accounting measurements should be made consistently and should be comparable from year to year...Numbers that are aggregated should be truly additive.”

There is no mention here of measurement methods, rather, whatever method is chosen it should provide consistency, comparability and additivity. Any mixed measurement approach though is inherently non - additive, particularly where a choice between methods is presented to accounting practitioners for the same type of asset. However, one does have to be careful here. Consider again UK ASB director's comment:

> *I mean clearly if you add measurements expressed in metres with measurements expressed in inches the total means absolutely nothing. However, if you add oranges, apples and bananas together you end up with a number of pieces of fruit. That's a perfectly sensible piece of information. It's not as informative as the total number of apples, or the total number of oranges, and the total number of bananas, but it's a perfectly sensible measure.*

So, hypothetically, if one measurement method was applied to say, intangible assets, and another method to say, inventories, then, providing each method was a single measurement method and applied in exactly the same way for that asset type between companies, then each company could add them up to arrive a total assets figure that was consistent and comparable between companies – UK ASB director's "pieces of fruit". However, the use of transaction cost and valuation based method re intangibles, the existence of FIFO versus AVCO stock valuation methods, both respectively attest to the fact there is no additivity even with types of asset – UK ASB director's "…oranges, apples and bananas..." Nevertheless, I would argue that, whilst the pursuit of 'consistency, comparability and additivity' might be an illusory one it is self - evidently improved through the adoption of a single measurement method for accounting purposes. However, **as one can see from the questionnaire comments alone, there was overwhelming support for the existing mixed measurement approach to accounting,** instead (see ASB, 1999, p79; IASB, 2001, para.100). One does not know whether this stance was, for example, in opposition to the IASB's fair value method or for some other reason **but that does not prevent me, within the grounded theory approach, from inducing an additivity requirement as feature of the overall theory even if the use of a single measurement method is unlikely to be applied at present.** Clearly, a consensus would have been preferred but it does not have to be in every case.

And, if one is referring to ‘consistency, comparability and addivity’, then **an observed measurement, rather than a predictive one, is preferred because it is presently verifiable**. But here again one has to be careful about what is meant by observation. A Canadian Accounting Standards Board report argued (IASB, 2005) 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 observable reproduction cost or observable 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, 2006c) which, as one moves down them, the focus of observation switches from being market focused to entity - specific focused, together with an increasing use of unobserved or predictive inputs to the measurement process and a greater risk of cooking the books (Ronen, 2008, p205). Milburn (2008) argued that these lower level ‘techniques’ may fall far short of being models (because ‘models’ imply some rigor and a scientific basis) that can be relied upon to reasonably replicate reasonably efficient market prices. But, of course, **such comments tend to assume that observable market prices exist for the asset in question, which is certainly not the case in respect of many intangible assets. Observation, though, can take on many forms including observable compliance with an accounting standard whose substance may be completely disconnected from market place. Thus, one needs to take a truly fundamental stance towards accounting as a discipline: whether the accounts are taken to be representative of real world economic phenomena (where the market value should dominate), or, whether the accounts, self referentially, represent what they purport to represent and nothing more (where the determination of value is made by a business entity with or without reference to the market place).**

7.4 A summary of what emerged from the generated theory

The aim of this study, as presented in chapter one, was ***to induce a theory for the pre - measurement phase of the asset recognition process in the financial reporting domain centred upon the use of the induced asset recognition criteria, which are applicable to all assets***.

The theory, to repeat, is presented visually in Figure 7.1 using the three central recognition features that emerged from the selective coding: separable, measurable, rights (see the circles in Figure 6.5). Within these three features a number of recognition criteria, most rights - based criteria, are embedded as developed from the grounded theory approach in chapters four, five and six. The central features on this emergent structure were discussed in relation to the literature in the three previous subsections (as presented in bold type). I now draw them together in this summary section. They are, sequentially, repeated as follows:

1. An alternative epistemology to one that is based on definitions could be one that is, instead, based on asset recognition criteria…the alternative definition approach is ineffectual in determining the asset status of expenditures in terms of their nature because that constituent nature is not specified other than in terms of what an asset does, that is, produce economic benefits.

2. What emerged from the analysis is that the accounting recognition of 'rights' is more broadly based than just in respect of an assets ability to produce economic benefits. Thus, assets may be recognised with a nominal value if they are, for example, used or just held in order to prevent competition or used only in compliance with legislation, as with pollution control assets.

3. The problem for those who would deny the existence of a legally backed artefact for intangible asset recognition is that the “present right” or “enforceable right” in the previous IASB definitions of an asset then becomes the “resource” and vice versa in respect of intangible assets – a conflation. Either that or one is left with a right to an economic benefit from an indeterminate resource for which the only logical candidate is the right – again, a conflation. And, if one accepts this reasoning, then the latest revised definition of an asset (IASB, 2007) is tautological in nature as regards its application to the recognition of intangible assets.

4. It is not a function of an asset per se, rather, <u>control</u> of an asset, is about the power to decide what to do with it (see Fincham, 1992 on Power and Giddens, 1984 on the dialectic of control). This view of control, though, is people - based, not rights - based, and, crucially, it relies upon voluntary compliance. With a rights - based view of control it is vested instead in the artefact. In respect of the entity power, the respective distinction to be made here is between voluntary and involuntary control, unless one believes in slavery.

5. One first needs to recognise an asset *before* measuring it and not vice versa, otherwise <u>one cannot be too sure what one is measuring</u>. The reverse argument that if one can measure an asset, de - facto, one has simultaneously recognised it cannot be a compelling one for the reason given (underlined).

6. What does emerge though from an asset recognition stance is that a separable unit - of - account is one that is capable of being transferred (see Figure 7.1).

7. As one can see from the questionnaire comments alone, there was overwhelming support for the existing mixed measurement approach to accounting… but that does not prevent me, within the grounded theory approach, from inducing an additivity requirement as feature of

the overall theory even if the use of a single measurement method is unlikely to be applied at present.

8. An observed measurement, rather than a predictive one, is preferred because it is presently verifiable… such comments tend to assume that observable market prices exists for the asset in question, which is certainly not the case in respect of many intangible assets. Observation, though, can take on many forms including observable compliance with an accounting standard whose substance may be completely disconnected from the market place. Thus, one needs to take a truly fundamental stance towards accounting as discipline: whether the accounts are taken to be representative of real world economic phenomena (where the market value should dominate), or, whether the accounts, self referentially, represent what they purport to represent and nothing more (where the determination of value is made by a business entity with or without reference to the market place).

At the conclusion of this thesis one can accept the obvious logic of asset recognition prior to asset measurement and not vice versa (point 5 above), but, why should that recognition be on the basis of artefact - based asset recognition criteria? Why should the reader accept the author's social construction in preference to say, the IASB's social construction, which is based on an asset definition? In support, I would direct the reader to points 1 to 4, above. However, I want to present a more strategic reply that shows the tension between a socio - legal and an economic view of an asset.

The use of an artefact is only there as a physical and legalistic basis on which to verify the recognition of an asset's rights, notably where the asset is an intangible asset. However, from an economic viewpoint, the alternative use of legalistically grounded artefact - based recognition criteria is, perhaps, just as unbalanced as the Napier and Power (1992) ‘measurement only’ stance to asset recognition because no measurement method is specified within the recognition criteria at all. Thus, the reader may tick ‘yes’ to all the criteria in this thesis and decide that they have recognised an asset but they are still left with the problem of measuring it. I develop some parameters in that regard (see points 7 and 8 above) but it should be understood again that this thesis is directed towards the pre - measurement phase, not the measurement phase for the accounting recognition of assets. I think the use of artefact - based asset recognition is better than the current definitional basis for the reasons given in this thesis, but it is ultimately up to the reader to decide as to whether one social construction is better than another one on the basis of a political policy choice.

7.5 Application of the pre-measurement recognition criteria

The generated theory should show how to recognise assets in the financial statements. As shown in figure 7.1, the candidate asset should pass through different recognition criteria tests and if it passes these tests then it is consequently assigned a figure to this candidate asset thereafter it is recognised as an asset in the financial statements. Based on what emerged from the generated theory in figure 7.1, one can see that if an intangible is a separable in nature, where the unit of account is known by deciding the level of aggregation for this candidate asset. In addition the entity should have the right to transfer it, then this asset passes the test of separable in nature. Followed by the Rights-based test, the entity should have the right to control this candidate asset, through which it has the right to use, right to manage, right to transfer, right to prohibition to harmful use, right to residuary character, right to secure, right to time horizon and / or right to execute liabilities, all of these forms of rights will consequently generate future economic benefits which the entity should have the rights to them. In that regards the future economic benefits that the asset would generate are different forms of functions for an asset. Then the rights- based test is passed. Finally whether this candidate asset is capable of being measured or not, this asset should have an observable measurement, additive and should be an entity specific. If this final test is passed then the asset now should be assigned a figure by using a measurement basis and finally recognised in the balance sheet as an asset. These three circled sets of recognition should be based on a documentary basis or an artefact basis.

In the following table two types of intangibles would be discussed. The generated theory would be applied to see whether to recognise or not to recognise them in the financial statements. I apply these recognition criteria on two different intangibles: trademarked brands and advertising costs.

TABLE 7.1: THE APPLICATION OF THE GENERATED RECOGNITION CRITERIA ON DIFFERENT TYPES OF INTNAGIBLES

	Induced recognition criteria	Trademarked brands	Advertising
Separable in nature	unit of account and level of aggregation	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.	There is no need to bundle advertising expenditures at all.
	right to transfer	Transference can occur independently of the other assets of the business entity.	There is nothing to transfer once the campaign is over whether dependent or independent.
Rights based	right to control an economic resource	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

Rights based	right to use	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.
	right to manage	With regards to a brand, again it can be franchise, under which it can be managed.	With regards to advertising, there is right to manage until the advertising campaign is finished.
	right to secure	A brand 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.

Rights based	right to transfer	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.
	right to time horizons	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'.	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

Rights based			subjectively determined in the minds of individuals. That said, it is highly unlikely that there will a complete absence of duration
	right to prohibition to harmful use	It is hard to see how this criterion would apply to brands and advertising except in the minds of customers	
	right to residuary character	The statutory expiration of a trademark unless renewed. Brands may still be protected under the tort of passing off.	With regards to advertising there may be a residuary character remaining in the minds of potential customers but there is no right to it.
	right to execute liabilities	A high profile trademarked brand may well be accepted in settlement of a debt.	As regards to advertising, no one would accept it in settlement for a debt.
	right to future economic benefits	Refers to the premium income appropriated by the brand but separating it from the income attributable to product to which it is attached is difficult. However, it is entirely possible to reconstruct charts of accounts 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.

Capable of being measured	measurable asset	In regards to brands, it is capable of being measured. 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	it is a measurable costs
	observable measurement	As regards to both the brand and advertising expenditures, both are based on observation whereas most brand valuations, apart from where the brand is purchased, are predictive, not observed.	
	entity measurement	it is an entity specific measurement where it decides on the valuation of a brand	it is an accepted price between the entity and the supplier, it is a market specific measurement,
	additive measurement	Various measurement methods are employed (price premium, royalty payments, P/E multipliers etc) and therefore they are not additive.	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.

As shown in the above table, a brand as an asset can be recognised in the financial statements since it passes the recognition criteria emerged for the generated theory. While the advertising expenditure failed to pass the emerged recognition criteria. This would imply that the generated theory in the form of the recognition criteria is enough to delineate an asset from an expense.

7.6 Summary

In this chapter, the generated theory is compared by what is found in the existing accounting literature in regards to the accounting for asset recognition. The first three sections locate the generated theory within the extant literature. Followed by a summary from what emerged from the generated theory. To show the implication and the applicability of these recognition criteria, two types of intangibles are compared to show how they are recognised in the financial statements. And by reference to the visual representation of the emergent social structure as presented in Figure 7.1, the following chapter will conclude on the main purpose of this research, which will be to direct the reader to the key features of the research in fulfilment of the aim and objective presented at the outset of this research in chapter one.

Chapter Eight: Discussion, Limitations and Directions for Future Research

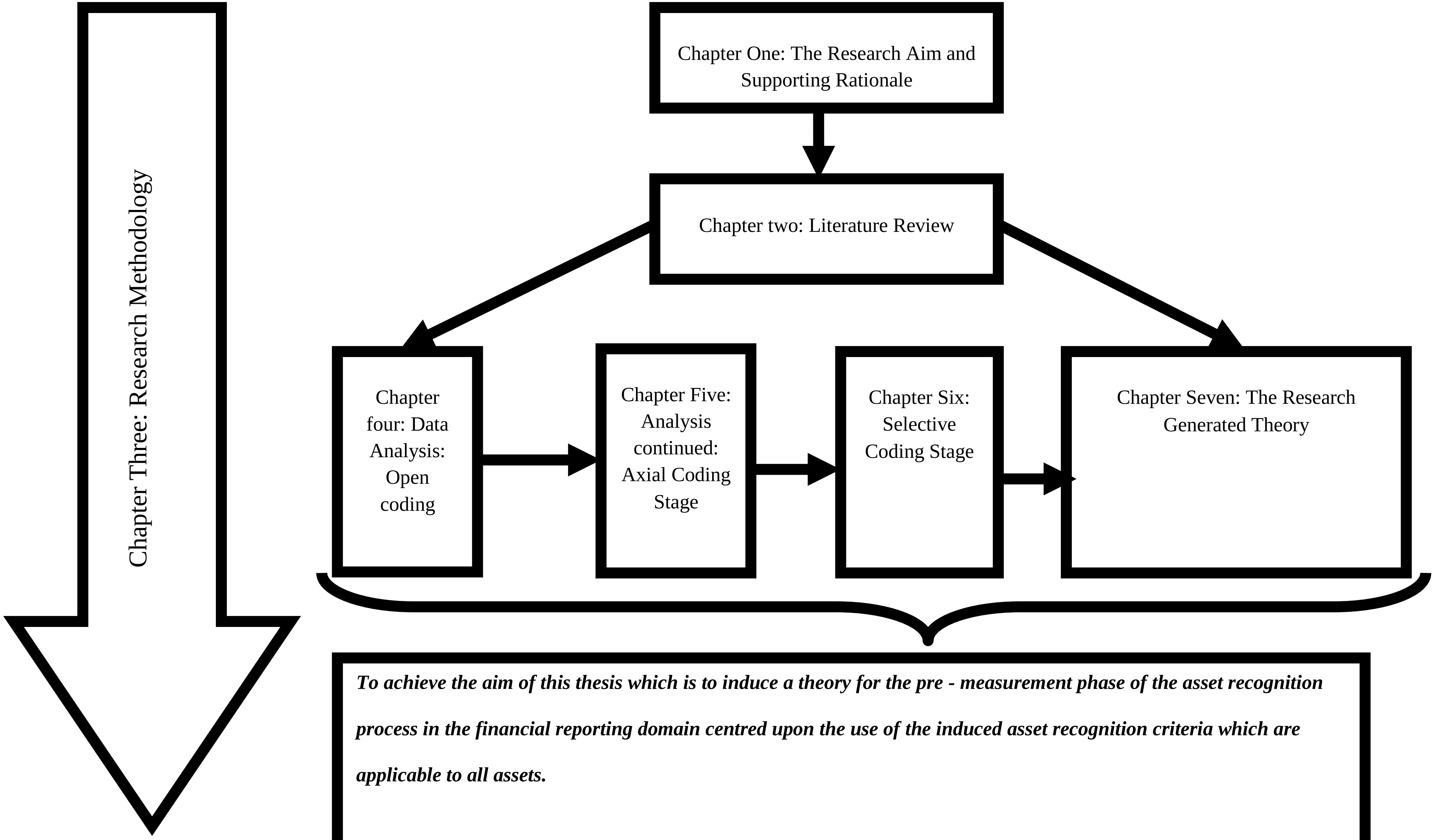
8.0 Introduction

An overview of the various stages in the research process, so far, is presented in Figure 8.1. As the reader can see from Figure 8.1, the research process culminates in this chapter. The social construction that emerges from chapters four, five and six has already been compared with the extant literature in chapter seven. What I need to do here is to point to the key features of what has emerged and to direct the reader to the key features of the research in fulfilment of the aim and objective presented at the outset of this research in chapter one. This chapter addresses a general discussion about what is being generalised. While in section 8.2, I address some methodological considerations on the use of Straussian approach. Thereafter, in section 8.3 I address the novelty and contributions of my research. In section 8.4, I address the weaknesses of my research both in terms of method and content. Finally, in section 8.5, the possible areas for future researches are recommended.

8.1The Generated theory: a substantive discussion

Kerlinger (1986) defines the notion of a *'theory'* as a group of interrelated principles and definitions that present a systematic view of phenomena by specifying relationships among variables with an aim to explain natural phenomena. This can be applied on the generated theory in this research, the theory emerged is a group of interrelated concepts that forms a systematic view of the pre-measurement phase in the asset recognition process, this systematic view specifies the relationships between a tripartite sets of recognition criteria separable in nature, rights based and capable of being measured with the artefact recognition basis.

FIGURE 8.1: THE FLOW OF THE RESEARCH THESIS TO ACHIEVE THE RESEARCH OBJECTIVES



From figure 8.1, the main research question was my main concern from the commencement of this research. One can notice that research aim is achieved as shown in figure 7.1, where the generated ‘theory’ is illustrated. The pre-measurement phase for asset recognition process is discussed with the generated theory form the empirical data collected throughout this research. While to show the effects of adopting these pre-measurement recognition criteria on some recognisable assets and non recognisable intangibles have been discussed in chapter seven. This research is an empirical study on how the international and national accounting standard members show their interest in recognising the assets based on their personal views based on the developing countries. This research also shows the most prevalent themes in the form of recognition criteria for a pre-measurement in asset based recognition where there is a lack of consensus on the proper accounting treatment of assets. Moreover, the theory generated shows how an asset recognition is related to rights based, how an asset should be separable in nature based on the level of aggregation that the entity can see it suitable to be disclosed, it also shows the measurement criteria for a measurement basis where the entity should measure its disclosed asset with. All of these themes and how they are grouped under the portrayal of an artifact documentary valuation based. The interplay, the interactions and the continuous comparison between incidents build up the ‘theory’ as a set of recognition criteria for a pre-measurement phase for asset based recognition process.

This generated ‘theory’ contains three sets of recognition criteria. The asset recognition criteria presented in this thesis break free from the narrow definitional and rule based perspective of accounting epistemology to offer an alternative view based on the recognition of artefacts. As I stand from a social construction point of view, one can notice the epistemological basis for asset recognition, this asset recognition constitutes a social construction that purports to represent economic reality (see figure 5.4). The epistemological basis of asset within the financial accounting domain is dominated by rules. Those rules are supposedly grounded on overarching conceptual frameworks (ASB, 1999; FASB, 1984, 1985; IASB, 2001) and the results of institutionally led external consultation processes legitimate the conceptual frameworks and rules, and the accounting regulatory bodies creating them, in the 'eyes' of society. According to those socio-political policy choices, there will be many 'assets' that are not disclosed on the balance sheet. There are also some issues related to this, where there is no line to distinguish an asset from an expense. Although asset definition occupies a central role in the asset recognition process, but it fails to distinguish an asset from an expense (see line 62 and line 63 figure 5.4). Combined with the definition of a liability, the asset-liability view is the conceptual primacy for all other elements definition. From this stance, I will discuss the elements of the pre-measurement phase as shown in figure 7.1.

Combined with this epistemological basis for asset recognition (the shaded part around all other elements), the artifact basis plays a vital role in the accounting domain. This artifact basis is a break free from the narrow view for the transaction basis. We, as accountants, are in need to broaden our view about the basis of recognition, especially in nowadays environment where the non-physical assets play vital roles in the surviving and growth of businesses. The notion of 'artefact' is widely used as logo or picture in the marketing domain. But when it is used in the accounting domain, it means any documentary and/ or documentary basis. When an economic resource needs to be recognized based on this documentary and/ or physical basis, there should be any evidence to support this, not only based our recognition basis on a transaction but to broad the area of this recognition. In figure 7.1, I combine the asset epistemological basis and the artifact basis, as the shaded area around other elements of the generated theory (based on the empirical evidence in figure 6.5).

The notion of 'separable in nature' is the mild stone in the asset recognition process, although the existing conceptual framework for financial reporting does not contain this notion. It is only applicable with the identification of intangibles- IAS 38 (IASB 2004). But when it comes to reality, the standard setters' personal view in this thesis, confirm it significant power in the process of asset recognition. Separability or separable in nature is a concept that should be applied as the first step in the process of asset recognition. This economic resource which is a candidate to be recognised as an asset should pass through the separability test, which is through the unit of account issue test then through the right to transfer test. The former test where the decision usefulness plays a vital role here, if we go back to the example mentioned by IASB member (5) (see section 4.2.5.5), he mentioned the bus as a whole unit of account and the wheels, the seats ...etc. I can see here a complete example of tangible assets. The bus as a whole can be an asset to be recognised with only one figure in the balance sheet, or each spare part can be recognised separately. In this case it depends on the level of aggregation and the decision usefulness. If disclosing the economic resource has an impact on the decision usefulness, which will satisfy the first objective for the financial reporting where the financial statements should provide the users with investments and credit decisions (IASB, 2006). This means that these financial statements should be transparent enough to achieve the objectives from them otherwise no need for them. The right to transfer is the second step where the entity should have the capability to transfer this economic resource. Combining the rights-based with separability, the right to transfer becomes an important issue in this research where the entity actual transference is a necessary condition for the recognition of a financial instrument (a sale), and there may be a series of actual transactions-based transferences in that regard, only the end-user of the instrument possesses the *capability* to transfer 'use' onwards. This issue though is not peculiar to financial instruments since, for example, there can be an actual transfer of stocks held for use by a transferee where the control and the related risks of control still remain with the transferor – the *capability* is restricted and can be curtailed.

The second set of recognition criteria is rights based. The core central right is the right to control an economic resource. The economic resource is the investment of the entity to produce benefits out of this economic resource. This economic resource may be scarce in nature and the entity should have the right to control it. This right to control an economic resource can be in the form of right to use and/ or right to manage and/ or right to secure and/ or right to prohibition harmful use and/ or right to settle a debt and/ or right to time horizon and/ or right to transfer or dispose and/ or right to residuary character. These different forms of rights to control an economic resource can result in the future economic benefits. In this instance, one can notice that the economic benefits are not only cash flows but it may be in terms of non monetary benefits. For example, to settle a debt, to act as a guarantee the entity can have the right to borrow a loan on its behalf. In this case the right plays a central role in this play, the entity should have the right to use this economic resource as a guarantee and it should also have the right to future benefits from this. In this case the notion of 'economic' should be expressed in terms of ££££ only, it should express the monetary and non monetary terms of the notion of benefits.

This right to future economic benefits is the intersecting point between the rights-based and the capable of being measured. The third set of recognition criteria is the 'capable of being measured', where we would like to make sure about the measurable asset. In other words, we have to make sure that this economic resource has the capability of being measured before it carries on to the phase of measurement (choosing a measurement basis). The recognition criteria in this third circle, of the three circled recognition diagram (figure 6.4), should begin by an entity specific measurement, where the candidate asset is measured internally. This entity specific measurement may not be a preferable criterion for the IASB who are proponents to the use of fair value as a measurement basis where the fair value is based on market specific measurement. The second criterion is the observable measurement where the measurement basis should be based on the past, present and not the future. The final criterion to be taken into consideration before submitting this economic resource for measurement basis is the additivity, where it is preferable to use only one measurement basis for all the asset measured in the balance sheet to ensure that they are additive as a lump sum amount. Although the last interview I did conduct with UK ASB director, he mentioned that the additivity may not be only using one measurement basis to achieve it but it may be wise able to use mixed measurement bases to achieve this additivity.

In summary, the research generated model demonstrates a three-circled-set of criteria for the pre-measurement phase of an asset recognition process. The three-circled set of asset recognition criteria presented in this thesis break free from the narrow definitional and rule based perspective of accounting epistemology to offer an alternative view based on the recognition of artefacts.

8.2 Some methodological considerations

The review of the previous research on accounting for asset recognition, as discussed in chapter two, identifies the gap in the literature and shows the lack of a theory for a proper accounting treatment for asset recognition which was the motive for this research. To generate a theory for the pre-measurement phase in the asset-based recognition process, this research followed the grounded theory (GT) research methodology. As discussed in chapter three, there are two versions for the grounded theory: the Glaserian and the Straussian approaches. Since this research begins with a critical review for the existing literature about the accounting for asset recognition, identifies the gap where there is no proper accounting treatment for asset recognition and sets up the research problem and the research aim. In this case the Glaserian approach was not a suitable GT version to be applied. The Glaserian approach suggests that the GT researcher should not have any idea about the research problem before going to have the data which was not the case here in this research. Moreover, Glaserian approach suggests that the GT researcher should begin his research with an ‘open minded’ as to what is going on in the field of research and then getting involved with the field of study the GT researcher will discover the problem. The Glaserian approach provides less specific analytical procedures while conducting the research. On the other hand, the Straussian approach suggests the use of literature review to identify the research problem. The Straussian approach provides more detailed guidelines to the GT researcher to help them to conduct their research. Parker and Roffery (1997) mentioned that the Straussian approach is more structured approach as it helps the GT researcher to generate the theory in a more systematic way more than Glaserian approach. The Glaserian GT approach may be used as a GT methodological approach when conducting research in the field of ‘practice’, for example in the field of medicine or nursing, where the GT researcher discovers the research problem while practicing in their field of study.

This research study followed the Straussian approach and this is due the suitability of it to this research (see table 3.2). In fact, researchers who use GT as their research methodology do not test or verify any preconceived hypothesis. In contrary, they develop new theory based on the systematically collected evidence. This research was based on developing and conducting a theory for asset based recognition process particularly for the pre-measurement phase. The deducting-inducting thinking for achieving the research objectives completely different from any other study in this field of research, most of the studies in field is based on hypothetico-deductive approach. With my experience the iterative process in the deduction inductive thinking is vital in generating the theory, as the GT research goes back and forth with the data collection until the end of the process to ensure the theory is generated and the saturation is satisfied.

In this research, there were different data collection methods combing both qualitative and quantitative data. First, the researcher carried out two rounds of interviews; the first round was conducted with the Canadian accounting Standards Board members in May 2008 during CAAA in Winnepig, Canada and the IASB members in June, 2008 during their monthly meeting, London, UK. the second round was conducted with IASB members, ASB member, experts within the area being studied. These two round interviews were useful for determining the preliminary concepts and categories in the open coding and axial coding structure. The concepts and categories raised from the first two rounds of interviews were then used to construct the third case of data collection which was an on-line survey (questionnaire). The questionnaires were emailed to national standard setters in Canada, USA, Australia, Germany and United Kingdom. Then finally, an interview was done with UK ASB director, the ASB research member, to finalise the theory saturation and to validate the reliability of the generated theory. This was done to enhance the validity and to coherent the inner pieces of the generated theory. Although the number of respondents and interviewees were not large in number, but the interview transcripts were rich in the knowledge and the transcripts enhanced and enriched the generated theory.

In summary, the grounded theory would be recommended for accounting research where there is no priori theory in the research under study. The grounded theory should be used in areas where it requires further investigations with an eye to discover new techniques and adoption.

8.3 Novelty and contributions of the research

The novelty of this research is based on the induced recognition criteria for a pre-measurement phase for asset based recognition process. Figure 7.1 represents the generated theory for a pre-measurement phase in the asset recognition process, which is a novel to the field of the accounting recognition of asset. The generated theory induced an integrated set of recognition criteria that influence all types of assets and how they will be recognised in the financial statements.

Seven contributions emerge from this research. The major contributions from this research will be discussed below:

First, the generated theory for the pre-measurement asset recognition is the first theory to induce a comprehensive set of recognition criteria that will be applied to all types of assets. My research removes the need for a definition and replaces it with asset recognition criteria as the constituent feature of the first stage of a two-stage asset recognition process comprising ‘pre-measurement’ and ‘measurement’. As most accounting for asset recognition research focus on the valuation or the asset measurement phase. This research added to the body of knowledge by generating a three circled set of recognition criteria which improves the accounting treatment for asset recognition process. In addition, this research has directed the attention of standard setters to the missing parts in the CF for financial reporting and why the currently un recognisable assets are not recognised in the financial statements.

Second, the timing of conducting this research is a distinct contribution when the IASB is reviewing its conceptual framework. My research was conducted with those who are expertise in the field and who are reviewing the recognition of asset. The accessibility to those standard setters allowed me to collect really rare and valuable rare which enriched the generated theory.

The contribution of this research to the field of study is based on their personal view about asset recognition process.

Third, this research contributes to the field of accounting for intangibles. With the use of this generated theory (Figure 7.1) some of the intangibles valuable assets will be recognised in the financial statements (see table 7.2). At the same time, this generated theory is not an empty box where all intangibles are recognised, for example, table 7.2 shows that the trade brands are recognised while the advertising expenditures are not. This would be an avenue for future research to build on that ground and extend the generated theory by contributing more categories.

Fourth, this research directed our attention to the notion of 'separability'. Currently the accounting notion of separability is only a feature of the asset criteria contained in IAS38 on Intangible Assets (IASB,2004). My asset recognition criteria are applicable to all assets, tangible and intangible, and they include separability as a central characteristic. In other words, there is greater consistency of accounting treatment than at present between tangible and intangible assets. This would make it easier to have one general rule to recognise all assets which would enhance better understanding for the accounting treatment of assets.

Fifth, this research provided an in-depth study about the accounting recognition of 'rights'. The 'rights' is more broadly based than just in respect of an assets ability to produce economic benefits. The notion of rights is linked to the function of an asset, as one can see in figure 7.1, where there are different types of rights linked to the function of an asset, as right to use, right to manage, right to transfer, right to prohibition to harmful use, right to residuary character, right to secure, right to time horizon right to execute liabilities and finally right to future economic benefits. This rights based set of recognition criteria is a critical to the accounting recognition of assets. With the use of rights based recognition criteria we are able to include many of the un-recognisable assets. As one can see that once the entity has any type of these rights discussed above, it can be recognised in the financial statements.

Sixth, this research introduces the notion of 'measurable asset'. The measurable asset should be characterised by having observable and additive measurement that enable it to be measured. The notion of a 'measurable asset' is firstly introduced in the accounting domain, where it is dominated by 'measurement only' stance. The notion of 'measurable asset', the research draws important implications on how to choose a measurement basis to value an asset.

Finally, the asset based recognition criteria presented in this thesis break free from the narrow definitional perspective to offer an alternative view based on the recognition of artifact or documentary basis. Where we are now in need to widen our scope of transaction based recognition to artifact based recognition. The use of artefact, we widen the scope of the recognition, so now it is more than a transaction and more than an event, it can be a document or a physical evidence to the entity's right in that asset.

8.4 Limitations of the research

One important limitation of this research is the context of conducting the research. The research was conducted with experts from Canada, United Kingdom, United States of America, Germany, Norway and Australia. In fact, by using the GT approach, I am acknowledging that the generated theory is constructed by experts' views. These views are reflection of their socio-cultural accounting background and function of their personal experiences based in the developed countries and not developing world. Gurd 2003 mentioned "*the beliefs and attitudes of the actors in the organisation cannot be divorced from the social structures and historical forces*" (p.7-8). This limitation may be justified as this research is a starting point for a long avenue of empirical research. This generated theory can be applied and we can see the effects of elaborating and verifying those recognition criteria on asset recognition based in the developing world.

The number of interviewees and number of questionnaire responses was another limitation in this research. However, the social actor had to be knowledgeable ones with the expertise to comment and, it is also correct to say, that most of standard setters were very busily engaged in improving the conceptual framework and other accounting standards. Although the use of the GT, this limitation is inevitable, as once the theory is saturated where the improvement is minimised and the theory is generated.

A danger with the grounded theory approach is forcing the data to let the theory emerge. As Gurd (2003, p6) mentioned: "*At no stage is the data forced to meet a concept*". This point was also one of the criticisms raised by Glaser (1992) as regards the Strauss and Corbin approach to grounded theory. In response, one can see from my research approach that I have used multiple data sets to try to ensure that codes were theoretically saturated as much as possible so that the theory derived from these codes was fully grounded, rather than forced. I probably did more than most GT researchers in that regard.

One of the limitation of adopting the Straussian approach is the researcher's 'active provoking', where GT researcher has an active role in leading the interviews. To avoid this limitation especially that the interviewees were conducted with highly experienced interviewees, my active role was to induce more and more categories without leading then to a certain answer or forcing them to a certain opinion. In addition, giving them the time to express their opinions in a very simple way. Again great care has been taken during the analysis to minimise the researcher biasness.

Another limitation in this research is that it is only concerned about the pre - measurement phase of asset recognition process. The issue of measurement methods is largely and deliberately excluded from the thesis on the basis that pre - measurement asset recognition is a - priori to asset measurement, otherwise, one cannot be too sure of what one is measuring.

8.5 Areas for further researches

The asset recognition criteria for the pre- measurement phase in the asset recognition phase induced from this research are considered to be the foundation for five suggested areas for further research

First, one of the suggested areas for research is to implement this research in the developing countries. The interviews and the questionnaire were taken place in the developed countries work. It would be more interesting to investigate the effects of applying this generated theory in less developed countries, this would open up a promising avenue on comparative study on the accounting for assets across different countries. Although the generated theory for the pre-measurement phase in the asset recognition process is useful in recognising some of the un-recognisable valuable assets in nowadays financial statements, but it is just a starting point. More empirical research may be necessary to elaborate and verify these recognition criteria in different countries. More empirical research would enrich this GT with more recognition criteria based on different settings.

Second, another significant research direction is the applicability to different types of un - recognizable assets, in other words, to apply these induced assets recognition to different types of assets who are currently not recognised in the financial statements. As shown in table 7.1 in this research, these induced recognition criteria for a pre – measurement phase were applied to two of the intangibles. This table can be extended to other un- recognisable valuable assets.

Like; organisational assets, intellectual capital and internally generated goodwill. Not only intangibles, but also we can apply these induced recognition criteria to leases, financial instruments. The generated theory can be applied to all types of assets.

Third, the unit - of - account heading stands out as a non - rights - based heading. It is, first and foremost, an asset recognition issue for the reason given at point 5 in section 7.4. Thus, when one has decided what the recognisable unit is for accounting purposes (the wheels or the car?), then an induced feature in this thesis is that the unit should be capable of transference. However, since, both the wheels and the car are capable of separable transference by a scrap metal dealer, but not in the case of a car dealership, one is left with the problem of deciding an appropriate level of aggregation for both types of asset (wheels or car) and the type of business (scrap metal dealer or car dealership). The suggested avenue in this regard is to show how can an entity decide about the level of aggregation.

Fourth, one of the further areas of research is the use of the notion of *'right to prohibition to harmful use'.* In respect of the 'prohibition to harmful use' in Figure 7.1, it seems to me that as social norms change in response to the environmental impact of assets, it will no longer be acceptable to use assets just in respect of their ability to produce future economic benefits. Thus, what we may see in the future is the disclosure of assets net of either known or contingent liabilities. The notion can be linked to research in sustainability accounting (ACCA, 2005). Where the ACCA 2005 report, mentioned how much importance the sustainable accounting is, part of the sustainability accounting, the entity should learn how to have to use an asset in useful manner.

Finally, one of the further avenues of research is the 'capable of being measured' circle (see Figure 7.1). It can be used to value the measurement bases. This interesting part between the pre- measurement and measurement phases for asset recognition can be more investigated for the use of the asset measurement bases. This can be a recommendation to the standard setters who are advocates to the use of the fair value as an asset recognition basis. The criteria given in this interesting point can be used as criteria for choosing the suitable measurement basis. In addition, there is a need for research efforts that can work on the intersection between the pre-measurement phase and the measurement phase.

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Appendix A: Interview protocols

Interview Protocol

1-Can I know your previous and existing experience with the conceptual framework for financial reporting?

2 -What areas are you interested in to be revised in the existing conceptual framework for financial accounting?

3-The definition of an asset appears to occupy a central role in the accounting recognition and measurement of assets. Would you agree? And, if you do agree, please give your views on that role for asset recognition and measurement purposes.

4-Common features of existing asset recognition criteria refer to the linkage to the definition of an asset, in particular, the ability to generate future economic benefits and that those benefits should be measured reliably. Do you have any views about the adequacy of such criteria for the purpose of recognising and measuring assets in the financial statements?

5-Do you have any views on the assertion that intangible asset recognition should be before asset measurement despite the obvious problem of recognising something that is intangible in nature?

6-Do you have any views on the assertion that, in general, a business cannot use an asset unless it has a 'right'; legal or otherwise, to do so?

7-Whilst there are clearly 'rights' attached to the recognition of an asset, for example, ownership rights, can you think of any 'rights' attached to the measurement of assets?

8-Please look at card 1, which defines what is meant by 'market-specific' and 'entity-specific' events. In comparison with market specific events, what is your view on the assertion that the accounting recognition of an asset is an entity-specific event?

9-Please look at card 2, which lists some functions of an asset. In what way, if at all, do you think that should functionality be part of the asset recognition process?

10-Please look at card 3, which defines what is meant by a "separable" asset, commonly referred to as separability. Please give your views on the role of separability in the accounting asset recognition process?

11- Napier and Power (1992) introduce the term "***Measurement Separability***", which collapses the three stages- identification, recognition and measurement- into one stage on the basis that if one can measure an asset, de facto, one has simultaneously identified and recognised it. In what way would you agree or disagree with this term?

12-Do you have any views about the ability of the existing asset recognition criteria to distinguish an asset from an expense?

13-Do you have any views about whether and how non-transactions-based or internally generated intangible assets could be disclosed in the financial statements?

14-Do you have any views about the use of asset recognition criteria as a basis for the counting recognition of assets?

Card 1

Market Specific Event	Entity Specific Event
An entity looks to the market prices of assets and liabilities, which reflect market risk preferences and market expectations with respect to the amounts, timing and uncertainty of future cash flows.	**It may differ from market value because of different expectations as to amounts or timing of future cash flows, different risk assessments or preferences… Any measurement of an asset…that differs from its market value must be based, explicitly or implicitly, on entity-specific expectations or risk preferences that differ from those of the market.**

Card 2

A list of functions of an asset, proposed by Honore (1961);

Control,
Use,
Manageable,
Right to capital,
Right to income,
Secure,
Transfer (Disposal),
Time horizons (life of an asset),
Prohibition to harmful use,
Liability to execution,
Residuary character.

Card 3

Meaning of ‘Separable’ or Separability’ in the context of accounting asset recognition and measurement:

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 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.

Interview Protocol (II)

The questions in boxes, below, were asked in the first round of interviews with IASB members

1. We deduced from the first round of interviews with IASB Board members that:

   (a) In respect of the five basic elements of accounting (assets, expenses, liabilities, income and capital) primacy is given to the definition of an asset. What is your view on this deduction?
   (b) The definition of an asset will suffice for asset recognition purposes and there is no need to have an intermediate 'asset recognition stage' between compliance with the asset definition and an asset's subsequent measurement. What is your view on this deduction?

2. One Board member argued that ***the asset definition with qualitative characteristics [relevance, faithful representation etc] is enough***. ***I do not think we need additional separate recognition criteria***. What is your view on this assertion?

3. One Board member interpreted ***'neutrality' in the 'faithful representation' of accounting information as meaning that assets and liabilities should, in principle, be treated the same. Since it is incumbent upon accounting practitioners to recognise prospective liabilities then the same applies to prospective assets***. What views do you have on this assertion?

4. Again; ***Assets should have the same accounting treatment like that of the Liabilities.*** What do you think about this assertion particularly after deleting the 'conservatism' from the proposed framework for financial reporting?

5. What is your view on the assertion that the recognition of assets is predominantly about the recognition of 'rights', legally enforceable or otherwise?

6. In the definition of an asset the term 'economic resource' is typically expressed in terms of access to future cash flows. Do you have any view on the assertion that the <u>nature</u> of that 'economic resource' should recognised first and, if so, do you see any linkage to the issue of 'rights'?

7. What is your view on the necessity, or otherwise, of separately recognising and separately measuring an asset rather than as a bundle of assets?

8-Do you have any views on the assertion that intangible asset recognition should be before asset measurement despite the obvious problem of recognising something that is intangible in nature?

9-Please look at card 1, which lists some functions of an asset. In what way, if at all, do you think that should functionality be part of the asset recognition process?

10-Please look at card 2, which defines what is meant by a "separable" asset, commonly referred to as separability. Please give your views on the role of separability in the accounting asset recognition process?

11-Chris Napier and Michael Power introduce the term “***Measurement Separability***”, which collapses the three stages- identification, recognition and measurement- into one stage on the basis that if one can measure an asset, de facto, one has simultaneously identified and recognised it. In what way would you agree or disagree with this term?

12. In a pre-measurement phase;

a. What is your view on the assertion that only one measurement basis should be used in accounting?
b. What is your view on the assertion that, wherever possible, assets should not be measured individually and, therefore, not as bundles of assets?
c. What is your view on the assertion that whatever measurement basis or bases are used, they should be observable rather than predictive methods?
d. Any asset measurement should attempt to faithfully represent current economic phenomena - the key word being "current", not past or future?

13. Would you regard the going concern concept as a feature of the asset recognition process?

14. Do you think that the proposed definition will be enough to delineate an asset from an expense?

15- Do you have any views about whether and how non-transactions-based or internally generated intangible assets could be recognised in the financial statements?

16. Are there any other points you would like to raise as a basis for the accounting recognition of assets?

Card 1

A list of functions of an asset, proposed by Honore (1961);

- **Control,**
- **Use,**
- **Manageable,**
- **Right to capital,**
- **Right to income,**
- **Secure,**
- **Transfer (Disposal),**
- **Time horizons (life of an asset),**
- **Prohibition to harmful use,**
- **Liability to execution,**
- **Residuary character.**

Card 2

Meaning of ‘Separable’ or Separability’ in the context of accounting asset recognition and measurement:

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 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.

Interview Protocol (III)

EXPLORE THE PROCESS OF ACCOUNTING FOR ASSET-RECOGNITION

1- EXPLORING RIGHTS-BASED ASSET RECOGNITION:

Do you support the following statements?

1. 1 A business entity would want the legal ‘right’ to control an asset.

1.2 A business entity would want a ‘right’ to control an asset that effectively prevents others from competing with that business entity.

1.3 The economic resource in respect of the accounting recognition of an intangible asset is a legally enforceable right.

1.4 There are many intangible economic resources in a business that are not recognised as intangible assets for accounting purposes.

1.5 The rights attached to an asset include a business entity’s right to use an asset.

1.6 The rights attached to an asset include a business entity’s right to manage an asset.

1.7 The rights attached to an asset include a business entity’s right to apply the asset as security.

1.8 The rights attached to an asset include a business entity’s right to transfer an asset.

1.9 The rights attached to an asset include a business entity’s right to settle debts with it.

1.10 The rights attached to an asset (whether leased or purchased) include a business entity’s right to any residuary character – what may remain after an asset is fully depreciated.

1.11 The rights attached to an asset are for the life or duration of an asset unless legally determined otherwise.

1.12 An asset should not be used to harm others

1.13 The rights attached to an asset include a business entity’s right to future economic benefits.

1.14 The rights attached to an asset include a business entity's right to future economic benefits and any related probable capital gains or losses.

1.15 Generally, the above 'rights' (points 1.5 – 1.14) may be attached to all types of assets: tangible assets and intangible assets alike.

1.16 Generally, a 'right' is ineffective unless it is supported by documentary or similar physical evidence.

1.17 Generally, a 'right' is ineffective unless it is a legally enforceable right.

1.18 There is no 'right' to control a human being unless one believes in slavery.

2- EXPLORING THE ROLE OF SEPARABILITY IN THE ASSET RECOGNITION PROCESS:

Do you support the following statements?

2.1 It is possible to disclose separable 'individual' assets and separable 'bundles' of assets on the balance sheet.

2.2 What characterises a separable asset is whether it is capable of being transferred separately from the other assets of a business entity.

2.3 The disclosure of bundles of assets should be avoided wherever possible.

2.4 The level at which assets are either aggregated or disaggregated for disclosure purposes depends on the type of business, for example, car component manufacturer for component assets or car distributor for a car asset.

2.5 The level at which assets are either aggregated or disaggregated for disclosure purposes depends on the type of asset, for example, a single machine or an integrated production line.

2.6 Whether a business entity discloses an individual asset or a bundled asset as a single unit-of-account depends on the decision usefulness of that information as presented on the balance sheet.

2.7 The balance sheet should only show those assets that are separable from the other assets of a business entity.

3- EXPLORING THE CHARACTERISTICS OF A MEASURABLE ASSET (EXCL. MEASUREMENT BASES)

Do you support the following statements?

3.1 'Assets' intended to prevent competition or prevent pollution or meet some statutory requirement may have a zero value that should, nevertheless, be disclosed on the balance sheet

3.2 An asset measurement should be capable of being observed.

3.3 The observation of a measurement basis is restricted to the past and present, not the future.

3.4 Whatever measurement basis is applied in accounting it should be a single measurement basis, not one using mixed measurement bases.

3.5 Mixed measurement bases are inherently non-additive in nature despite the fact that, in practice, they are added together.

3.6 Many asset measurements may not reflect the market values.

3.7 Many asset measurements do not represent the value of "current economic phenomena.

4- EXPLORING THE CHARACTERISTICS OF REPRESENTATION

Do you support the following statements?

4.1 Many 'assets' are not disclosed on the balance sheet.

4.2 The balance sheet is self-referential, that is, it represents what it purports to represent and nothing more.

4.3 The balance sheet should faithfully represent economic reality.

Appendix B: Interview with IASB member (1)

Interviewee: IASB member (1) (IASB Board Member)

Location: IASB head office, London, UK

Duration: 80 minutes

I would like to introduce my research topic to you...It is an empirical study to recognise assets...important nowadays because there is a joint project between the IASB and FASB to revise the conceptual framework for financial reporting. This project will take the recognition phase at the beginning of 2009

I think that is wishful thinking but that's alright. I won't live long enough to see it happen. They won't reach agreement. I think what they will come up with will be the definition. What they will stumble over is whether there should be recognition criteria. The obvious answer is that if you meet the definition you record it….but they [board members] are not going to be willing to do... they're going to frat about that. That's where it will fall apart, in my opinion. The recognition criteria now don't really do anything, except give people a cop out when they don't want to recognise any thing. They'll say 'that's not reliably measurable.' The hell it isn't. They just don't wanna to measure it, and that is where they'll be a problem. I expect most of us are gonna say 'No, we've got an operable definition. If you meet the definition, you record the asset, recognise the asset. Now, we can argue how to measure it, what attribute to apply, but I doubt that we would agree on recognition criteria, apart from the definition, which is in both frameworks now.

Are you going to have the recognition criteria included in the definition?

I do not know what you mean by recognition criteria? You either meet the definition or you don't meet the definition.

But do you think that the proposed definition will be adequate to include assets in the financial statements?

That's a circular question – whether the definition of most assets be recognised. It depends on whether they meet the definition or an asset. If they don't meet the definition of an asset, they shouldn't be recognized. If they do meet the definition of an asset, they will be. They wouldn't be if they have separate recognition criteria, and that's we are now. A part of that has nothing to do with the asset definition. Some of the reasons for the separate recognition criteria is to make…we want to recognise things differently, depending upon whether the credit is to revenue or not. If the credit is to revenue, we have a higher hurdle. That what's FASB concept 5 is all about. We got this definition, and these recognition criteria, but then rning process.' I have no idea what the hell that means, but it is a way to not recognise something sooner than some people think that they ought to be recognised. In a sense, we have two sets of recognition criteria. That is where the trouble comes from. We'll end up agreeing on the words for the definition of an asset then we'll have trouble with whether there will be a recognition criteria. That's my guess.

This month, June 2008, ABACUS issued a special issue for the proposed conceptual framework and the joint project. Whittington proposed some ideas for the fair value measurement. He said if we need to have fair value as a measurement basis, the whole CF should work towards this objective.

…[irrelevant to research] …..

What I found here from these questions… I found these questions confusing. I think that you are confusing definition, recognition, and measurement. The definition of an asset, and the recognition, have nothing to do with measurement, other than if you this phrase in that it has to be reliably measurable. If you have that recognition criteria then that's just a trump card that keeps you from otherwise meeting the definition. But you ought to be able to construct a framework that says that these things do, or don't, meet the definitions, decide whether you have any recognition criteria or not – let's assume you have no special criteria – and then switch to the question of how am I gonna measure it? These people that say the conceptual primacy of assets and liabilities suggest that fair value has to be the measure. I don't believe they've read the literature. There are a whole hell-of-a-lot of academics in the USA who are guilty of that. Many of them that ought to know better. In fact, some of them do know better. It's just politically popular to say that.

You know one of the objectives of my research is to distinguish between the three phases between asset definition, asset recognition, and asset measurement. Although you are saying now that the second phase will be included implicitly in the definition of an asset.

No, I did not say that. I said we will have trouble reaching agreement rather than there will be any distinct recognition criteria. Because there is now... people can find it convenient...that's where we will have our disagreement. We will reach an agreement on a definition. We'll reach agreement on measurement in the sense that we will just say that we can solve that standard by standard. We are not gonna have a framework that says once that the only measurement attribute is...? That will never happen. Even if it was the right thing to do, politically, it will never happen.

The interesting thing about measurement, and I have done several public hearings, people are absolutely afraid of fair value. If you say to them 'should we prohibit fair values', they say No! Then they'll go on and say that mixed attributes model is fatally flawed, and needs to be fixed. Then you go on and say to them, 'I guess I've got to do fair value for everything.' Oh God, no, we don't want that...but these are mutually exclusive assertions. If you don't want to do a mixed attribute, and you don't want to prohibit fair value, there's only one solution left: everything at fair value. Now, in the final analysis, what they're going to accept is the mixed attribute model. Some things will be measured using one measurement and some in another. That's just inevitable.

…. unless it is a new generic term?

It's an exit price. It's not some global term that embraces six attributes or something. That won't happen. I think when we finish the FASB exposure draft and Statement number 157, we would say drop the term fair value and deal with entry and exist prices.

Rather than agree on definition, why not jettison the definition and agree on recognition criteria instead?

For a variety of reasons, I think that not the least of which is that if you agree on recognition criteria...I think that would meet all the recognition criteria for your assets...why should they be on my balance sheet? I can measure General Motors' receivables. Do I get to put them on my balance sheet? I don't think so. The asset is to distinguish the assets of the world from your asset versus somebody else's assets. It's not as descriptive of 'asset' in general as people think it is. It's actually a way of distinguishing if it happens to be yours, which is one of the reasons that most of the current thinking is more to a rights approach. Who has the right? Whatever the right is, who has the right to it

If the recognition criteria said recognise the following...you'd end up going in circles. Yes, they've gotta be your rights to it. So, you'd end up with essentially the same thing.

So you agree on a revised definition because it's easy, but actually you wouldn't be opposed to jettisoning it if you could find a right's based mechanism for the recognitions of…

Probably not. I think it ends up in the same place.

I think I'd argue that the recognition basis would be a bit more accurate, however you define accurate.

Ok! Can I know your previous and existing experience with the conceptual framework for financial reporting.

I have been involved with the FASB since it is formed.

What areas are you interested in to be revised in the existing conceptual framework.

Two or three things that will not have anything to do with you or what you are interested in. I think the framework, the measurement chapter is woeful. It actually describes things that even are not measurement attributes in both frameworks. So that's a significant weakness. I think the fact there's no entity concept in the framework is a significant weakness. The asset definition, in my opinion, has got two flaws in it. One of them relates to the word control, which we don't know what it means in the context of an asset definition. That has been problematic. And the word 'probable' (that is in the FASB's) and 'expected' (that's in the IASB's) are both phrases that don't mean what the English language use of the word means. That has been problematic. So, if we do nothing else with the asset definition but find the way of expressing a different way from using word probable, or expected, and quit using the word control, we make improvements.

That's why the four phrases 'probable', 'future economic benefits', 'control' and 'past events or transactions' are removed in the proposed definition

Yeah except 'future economic benefits' is there because it would not be a resource if it did not have economic benefits. To be yours, you've got to have the rights to it, as opposed to ‘control’ it. We don’t mean control in the same way as we mean control when we get to consolidations.

..like right to control

Just think of an ‘option.’ No, you cannot communicate to anybody in the world when someone says ‘I’ve got an option on this building’. Well, people want to say you don’t have anything because you do not control the building.’ Well, in a way, I do control the building but that isn’t what we really mean. What we are trying to do is not value the building - we are trying to value the right to a building. The asset we have got is not a building, the asset is a right to the building, and that’s what confused people with the word ‘control.’

Yeah one of the articles I read the author asks a question: are assets rights from which an entity can expect to derive future economic benefits or assets are future economic benefits per se?

I find that phrase wrong! The ‘right’ to which you will derive future economic benefits. I think having a right now ‘is’ an economic benefit. At the moment it is right now, today. I got a right. That’s gotta be an economic benefit. It might not be worth much, but it’s certainly something you don’t have. Now, if I got the right and you don’t then I got something that seems to me meets the definition of an asset. Measured perhaps at darn near zero, but it’s still something that I have.

The definition of an asset appears to occupy a central role in the accounting recognition and measurement of assets. Would you agree? And, if you do agree, please give your views on that role for asset recognition and measurement purposes.

It’s the only real thing. There isn’t anything sacred about that. I mean assets are real, liabilities are real, and everything else is dreams of accountants.

So you agree that the asset/liability view is the conceptual primacy for all other elements of financial statements.

Yes, nothing else works.

Some others are in favour of the revenue/expense view is the conceptual primacy, and you are in favour of A-L to be the conceptual primacy.

Those people have never defined what they mean by revenue/expense view, without using the word ‘asset,’ or ‘liability.’ They ought to go and take logic one-on-one. If they do that then I may be willing to pay some attention to them. But until they do that, I think they are wasting all of our time...It’s focused on managing earnings.

Before we carry on to question four, I would like to ask you about the proposed definition of asset. In 2006, it was defined as “it is an economic resource to which an entity has a present right or other privileged access”. Then in Oct 2007 it was defined as “it is a present economic resource to which the entity presently has an enforceable rights and other access that other do not have”

Don’t pay so much attention to daily things that happen.

Yeah I know that it is still a working definition, but the recent definition shows that assets are enforceable rights before meeting any other characteristics of the definition.

The problem is the word ‘enforceable.’ I don’t happen to believe ‘enforceable’ is necessary. Whether it is in there or not, we’ve got to decide what the hell it means in that context. It is too tied to contracts and law… that’s not what it’s really meant to be. Obviously, I don’t really have a right if I can’t be free to exercise it…if someone else can prohibit me from exercising a right. And this is back with the ‘other privileged access phrase’, or ‘control other’s access to it’, which is in the FASB literature...It’s not that I’m prohibiting you from doing something, it’s because I have it. It’s not that there is a barrier stopping you from you getting to it, it’s that I’m the one with the right. Does that make it enforceable? It wouldn’t be a right if I didn’t have a right. And what I really do…I have it exclusive of you having it.

But if we look to a capital lease, for example, if I have a truck and I lend it to someone under capital leases...Although I own it, he has the right to use it, so this means he has to put it in his balance sheet.

What is it?

The truck

No. If I don’t think he has. If I own a truck and I lease it for you, I don’t think it’s a truck that you have. I think you have the right to a truck. That’s the same as the building. You have the right for some period of time, not a truck. It is my truck.

This means that we own the right but not the truck itself.

That's right. You have a right for the truck for three years. I have the truck and I can control your access to it. Now, I let you have access to it because you are paying me $500 a month for it…By the way, when you quit paying me $500 I am gonna to get the truck back.

What do you mean by control?

It is a funny thing about control here. It is not 'control' in the sense that we mean it with consolidation, it is passive, in the sense that, yes, it is mine, and I can stop you from having access, and the rest, but control under consolidation means I can make it happen. In the asset definition, if it happens it will be mine. You see what do I mean? Those are completely different uses for the word 'control'.

So in case of capital leases, I have the right to use the truck, so I have the right to put it in the balance sheet.

You certainly have an asset. Unless you put a recognition criteria in there that says somehow I don't do it, yes, you ought to.

Would you like to have recognition criteria even if the framework does not?

If I have my way we won't even have an area in the framework called 'recognition criteria'. We'll have definitions and you meet them or you don't meet them.

So, do you think that 'present economic resource' and 'rights' would be only enough and sufficient to define and recognise assets?

That'll be the debate. What it really is, is…people think it's too inclusive. It includes too many things.

From my point, even if this definition would be only one sentence we have to clarify it in more guidelines…even if we did not explicitly say that these are recognition criteria so as to avoid any confusion in the future.

Hopefully, it has less than the sentence has now. And right now the FASB framework has got the definition and the three characteristics of the definition. Whether we do that or not, I don't know.

Common features of existing asset recognition criteria refer to the linkage to the definition of an asset, in particular, the ability to generate future economic benefits and that those benefits should be measured reliably. Do you have any views about the adequacy of such criteria for the purpose of recognising and measuring assets in the financial statements?

I've already said I wouldn't put any in at all…We are not going to have these criteria. I do not want to worry about that…We haven't even talked about recognition criteria. 'Measure reliably' – I can measure something very reliably, perhaps, measured at zero because I paid nothing for it, but it is still an asset ….

Like the internally created intangible assets

Like, let's take mission rights. People want to say they are not assets. You can sell 'em for cash. I would like to have it. As I used to say with stock options, if you think these aren't worth anything give them to me. I'll take 'em…I think that you have to have the right to something that has a value and meets the definition of an asset. Now, I haven't thought of why there is a circumstance of why I don't want to recognise that? Now, you might say only those that are the result of transactions…that if they're internally created…that's a potential recognition criteria. Generate it yourself, and you don't get to recognise it. I wouldn't do that but know there are gonna be people who would say that. Maybe for classes of assets the criteria are different. That is probably standards level instead of concept level. I could clearly envision the world going for the next 100 years without recognizing the internally generated goodwill. But I also know damn well they are going to recognise it when they pay for it in a transaction. They are not gonna want to debit an expense for $50 billions on a $51 billion business combination. They'll never do that. You wait and see. That's a different form of recognition. This does not necessarily mean that the recognition criteria are in the framework as much as they would be by nature of the transaction. A standard on goodwill would say you don't recognize internally generated goodwill. Why? Because we said you don't. If doesn't meet the definition of an asset.

This means that still with the new conceptual framework many of the intangibles will not be recognized in the financial statements.

I don't know whether they will or they won't be, but they sure as hell meet the definition of an asset.

What about objectivity in all these?

You've gotta figure out what you mean in the case of intangibles. What do you mean? Do we mean to recognise all intangible assets? Let's just say the three of us are a personal services company: accountants in an accounting firm. All three of us are pretty darn good. Do we have an asset because we are good?

I think, yes we have an asset?

I am not sure of that. I do not believe we do. I think we have the potential to generate future economic benefits but I do not think that we have a present 'right' to those future economic benefits.

But, as a group, we already are generating an internally created asset

You are heading down a slope I'm not gonna head down. I don't think you're gonna meet the definition of an asset. But that's what some of the argument is about.

This means that you disagree to include some of the intangibles nowadays financial statements although they are generating economic benefits for the entity.

At some point in time…what you really arguing for is book-the-market-cap [capitalization]. I can see the market thinks this company is going to do good. That's why it sells 28 times earnings. Book an asset. It makes accounting easy. You just look it up in the paper in the morning . Debit goodwill and credit gain/loss.

This means the bookkeeping is very important in that sense.

That'll be back…we'll be more interested in transaction-based accounting, I suspect, as opposed to saying that these things are going to get booked. I do not think I want an impairment loss because you get pregnant. You're not going to work for eight/ten weeks, so I must have an impairment in your theory of the three of us together – a synergistic asset.

Yes! If both of you work without me. Do you think that you both will generate future economic benefits, the same as we the three work with each other.

No we're not. We're going to be worse off without you there for ten weeks. So, I got an impairment loss.

Do you have any views on the assertion that intangible asset recognition should be before asset measurement, despite the obvious problem of recognising something that is intangible in nature?

I do not understand what does this mean? I don't know what *'before'* means?

You have already answered this question. Here I am trying to specify the three phases: definition, recognition and measurement. So do you think that the recognition should be before the measurement or not?

What does *'before'* mean? Do you mean that I have to consider recognition before measurement? I have to consider if I have an asset before IO consider measuring it.

If we have the definition and measurement phases only, I think that the recognition would be an intersecting part between both of them because we can't have a definition without measurement and we can't have measurement without recognizing it.

You could have something that meets the definition of an asset that is absolutely immeasurable. That's possible I suppose. I don't know what it is, but it is probably possible!

So do you think that any economic resource can meet the definition and it could not be measured?

I do not know what it is. But I have to accept that that's possible.

This means that its recognition will not be possible in the financial statements.

If you cannot measure it, you cannot recognise it, because you gotta assign a number to it to put in the financial statements, unless you put it down as 'zero'. I guess you could do that.

I guess now instead of having three different phases, we now have two intersecting phases: the definition, and the measurement, and in between the recognition of financial statements.

I don't know if it is in-between or not? I don't know whether that's true? I don't know what it means? I don't know what are you trying to do?

I am trying to put a boundary to each phase. Do you think that the two phases are intersecting with each other – asset definition and asset measurement.

I cannot put it in the financial statements if I didn't assign a number to it. That's a measurement, even though it doesn't dictate a measurement attribute.

And we can recognize it in the financial statements if it meets the definition and the measurement.

Well, that depends on what you meant when they said measure it reliably. If assigning a number to it is a reliable measure, then…

Do you mean that recognition should be to meet the definition and to be measurable?

I do not understand what you mean by 'meets'…

To meet the definition

It has to meet the definition, and it has to be measurable or I wouldn't know what to do with it!

What comes into my mind now…to be recognized in the financial statements…this means to record it in the financial statements.

I can record a 'zero' I guess except its not going to show a lot.

But zero is a figure

I can't envision a balance sheet that has a building with $1 million on it, then a building with a zero because that one wasn't measured, and then something else…I can add all of 'em up to $1 million. Then I guess that it is useful that it makes up for three buildings, not one, but two of them were never measured because they couldn't be. I am not sure what I get out of that?

Do you have any views on the assertion that, in general, a business cannot use an asset unless it has a 'right'; legal or otherwise, to do so? Of course, we have already…

And whether that's control or control to other's access. I don't think that this as important a question as people think it is.

Can we shift to question nine? Please look at card 2, which lists some functions of an asset. In what way, if at all, do you think that should functionality be part of the asset recognition process?

Should functionality be part of the asset? – good question. I don't think that these eleven things functions are distinctive [Honore's eleven functions on card 2]. In other words, if I control it, I can use it, I can sell…

This means under control, there are other properties i.e. under control. These are we can control it, use it, manage it, sell it… So under control, there will be others. They are not separated.

No, they are not distinguishing from each other necessarily – right to income? You know I think to test yourself I wanna give you the simplest of transactions to think about in terms of assets, but it also relates to liabilities:

Let us say for one moment that I have $1000 receivable from you and it bears interest of 6%. So you owe me $ 1060. And I take it today and I sell it to him [a third party] for $1010 now, but the 'sale' got quotes around of it in the sense that he pays me $1010, and he now has the right to your $1060. Do I still have an asset or not? I know that I have $1010 cash. But what will be my credit? Is it to asset or to liability…to deliver to him the $1060? Which?

I think…

We don't know the answer to that.

Although we sell it.

I put quotes on it! What the hell do you mean by 'sell'? I gave him all the 'right' to your cash but you don't even know about this by the way. You're not told anything. You're gonna pay me. Do I still have an asset because I have an absolutely the 'right' to collect $1060 from you. Unequivocally, I have a right to collect from you and you have the liability to pay me. So you look at these criteria, which all seems to be my asset. [In other words, Honore's eleven characteristics on card 2 do not address the above conundrum].

For example, the criterion of 'residual character' is like what you're saying now, although we disposed of the asset, we already have the right because…

I am the one with the access of $1060 but now let's switch to his books. He credited cash for $1010. I think he thinks he's got an asset. Now, let's daisy-chain this long enough. He then sells it to that guy, who then sells it to that guy, who then sells it to that guy…before long maybe you bought it back to complete the circle. That's the way we do this and think about it in accounting. The only thing that is of any substance is that you owe $1060. But we are going to have $75,000 worth of assets in people's balance sheets if 75 people all get this right to it.

But at the balance sheet date it is his asset and it is my liability

I do not have the 'right' to $1060? I am going to sue you when you don't pay it.

But according to the contract I have to pay and you have to pay him.

So this means that I have a liability.

I think it is not a liability from the accounting point of view…

I'm just saying if you want to think about testing definitions think about that: the simplest transactions and decide how useful you think it is if one million people are getting' this daisy-chain! So, we suddenly have here a $billion worth of assets and the only cash that is ever gonna change hands is …you pay me…right round in a circle.

Are there any particular features that you would exclude [from card 2]?

I didn't know what 'secure' meant?…I mean 'time horizons? [too]

Back to the functions [card 2], what about residuary character which is like a guarantee in the bank?

The only thing that matters in terms of the definition is whether its 'present' today, now. It wouldn't be an asset if it isn't present today. But again you've gotta not be confused between the right to flow with the flow. The fact the flow is gonna happen in six months doesn't mean there isn't a present right to is. I cannot understand the purpose of the distinguishing 'right of income' and 'capital' would be [looking at card 2], in terms of the definition.

Right to income means the right for future economic benefits.

Both the right for future economic benefits

Yes, but 'right to income' and 'right to capital'...I think one of them is to increase wealth of the business [holding and cumulative operating gains] and right to income is capable of generating wealth [current operating gains].

I don't know what that has to do with the definition of an asset now?…The far more interesting problem we have is not recognition criteria, it's de-recognition, and that's what the $ 1000 transaction is about: de-recognition, not recognition

Although the 'de-recognition' is only specified in ASB Statement, but it states that to 'de-recognise' an asset or a liability when it stops to meet the recognition criteria.

Which is circular. The question is 'should something be de-recognised where it fails the definition of an asset? Does this fail the definition of an asset or doesn't it? I do not know the answer to that.

For the de-recognition, we have to take into consideration the boundary between an asset and an expense? Of course, other than this example, if it does not meet the definition of an asset, do we recognise it as an expense or a loss?

I guess, if I have a credit, I should figure out what I gotta do with a debit. If it isn't an asset, it's either gotta be a distribution to an owner, or a decrease in liability, or an expense.

So how can we put a boundary here?

It has to reduce the liability, be a distribution to owners, or be an expense. Those are the only other possibilities.

This means that if an item does not meet the definition of an asset, it has to be an expense or a distribution to owner or a decrease in liability.

No, no, no. There is a whole bunch of things that may or may not meet the definition of an asset that we are just not gonna do anything with. The only reason you have a question there is that you had a transaction. You wouldn't be thinking what to do if a transaction didn't take place. Your problem is you had a credit to cash. Because you had a credit to cash, you are worrying about what your debits gonna be. If you have never had credit to cash, you probably aren't sitting there saying every morning I wonder if there are assets somewhere that I should be recognizing, or I wonder if there are expenses somewhere that I should be recognizing.

For these 11 functions [card 2], you disagree to be functions of an asset or even characteristics of an asset.

As I said I don't know what some of these meant? I don't know what 'liability to execution' means? I do not know what 'prohibition to harmful use' means?

You know 'prohibition to harmful use' means, when we go to IAS 41, accounting for agricultural assets, the asset should not harm others…I know it is just a function or a social function, but do we have to take it into consideration when we have an asset.

Yeah. When a truck kills people that doesn't mean that they aren't assets?

But from a social point of view, we may have equipment that can expell smoke or something out of a factory, and it's still considered to be an asset.

Hell, a package of cigarettes is an asset!

So it is not a function of an asset.

I don't think so…. And I don't know what does 'residuary character' means?

…that the entity continues to use the asset after its expiration of its useful life…Like, in the example you gave me: the $1000. Do we have any rights to have these rights recognised in the financial statements?

I don't know whether it means I have the assets or not, or whether I have a liability and an asset.

But from your point of view, and from the bookkeeping point of view, you have already sold the asset. You received cash, debit cash, credit asset.

The question is: do I credit asset or do I credit liability? I absolutely have a requirement to pay him $1060. The problem is I am just the conduit. He's agreed to pay only to you [first party]. If you do not pay, he doesn't get paid [second party].

I think it will be a conditional liability. If I pay, you will transfer my payment to the third partner. If I didn't pay, you have to pay him.

No, no, if you don't pay, I don't have to pay.

I think it is just a conditional liability

You've answered the question. You're way ahead of us. By the way, this is the sub prime lending crisis … everybody's got everything off his balance sheet. Everyday you read the newspaper about how terrible accounting standards are because things are off balance-sheet. That's what it is. That's all that transaction is.

Please look at card 1, which defines what is meant by 'market-specific' and 'entity-specific' events. In comparison with market specific events, what is your view on the assertion that the accounting recognition of an asset is an entity-specific event? In other words, should assets be marketable or not?

First place, I think this confuses two things. The first question is, is it my asset or isn't it my asset? If it isn't mine, whose is it? This then brings the measurement into it. You want to measure it differently because you want the characteristics of me owning it versus somebody else owning it. That's not an asset issue. It's not a whether it's my asset issue. It's how I'm going to choose to measure my asset. Entity specific measures combine other things…The marketplace trades these things for a thousand every day, and we can observe that. We get over here, and it happens to be mine. This says that I want to measure it as $1100 because when I use it, I use it better than you do. That's not an asset issue. That's a measurement issue. What I never understood about Geoff Whittington's measurement model is how much of all my future net income did he want to book now? He didn't book at all…the world would end up earning nothing but a risk-free return, because you'd sit there and say 'now that I've got this, this is going to produce $10,300 over the next eleven years, and I've got to present value it, so I present value it at some rate. Whatever rate I pick will be then the only income I have over the next eleven years if this works out properly. I've booked all the income up front, except the risk-free return. But they don't do that. They book some of it over there…for reasons I don't understand how they select? I don't view this as having anything to do with asset or asset recognition, but a lot to do with how you want to measure them.

Would you please look at card number 3. What is meant by a separable asset? Please give your views on the rules of separability.

I have been on both sides of the question as to whether they have to be separable to be assets or not. I don't think the answer can be 'yes'. I don't think they have to be separable to be assets…the fact I can't separate it, meaning I can't sell it apart from anything else. Let's assume that I've got four things, and I use them as a unit. Maybe I could sell three of them separately, but I can't sell that one. I don't know whether it's important. Maybe it's just labelling that if I label this as four assets, do I get a different answer if I labelled it asset one, two, three, and four? I don't know whether this is all just a unit of account measurement issue, or whether it is definitional and recognition-based.

In my home country I used to learn accounting from the intermediate book (Kieso and Weygandt's book) Do you remember in chapter 10 we have a lump sum purchase for fixed asset? We have to separate them, even if we don't have the actual price for each one of them. We can have it in a ratio of their fair value. Even if we have the book values or their fair values are separate from the total, we have to take it into consideration. This means that here we have to separate them.

Kieso & Weygandt said theoretically you have to, but you don't have to. It depends what the accounting standards say. We may be able to say it's four assets.

If we have three pieces of equipment working together, they can generate more income if they are working separately.

That's right. These are four machines.

This would create another asset, which we have to separate and value.

I think it's really a unit of account measurement issue, not an asset recognition issue. I just don't know if it matters. I just don't know. The world wouldn't come to an end if I labelled this four machines on my balance sheet instead of machine, one, two, three, four.

But you're ignoring an asset.

I wouldn't be ignoring an asset. I'd be embedding all four of them into the fourth.

But the fourth one will be implicitly inside the other three.

That's right. If I want to label it as four machines…

So where is the four?

They're all right there – one, two, three, and four. I put them on the balance sheet in one lump. If general motors put it on their books…what different does it make if they put this as the Ohio manufacturing plant for $1 billion, or if they took that and said it's building, land, and equipment, and, by the way, it totals a $billion. This is no different to when you buy a 777 aeroplane and you're gonna depreciate the engines faster than the rest of it.

I think it does matter with intangible assets.

That's what I got to. I don't think it makes any damn difference. But then you say intangibles have still got to be assets, even if I can't separate and sell it, if, in fact, the right I have to it is producing future income to me.

The problem at the moment is you may dispose of the bulk of it leaving in tact what you think has value when, in fact, it doesn't have value. Unless you can identify what is clear value…

What's the producer of the income?

Yes. That's the danger surely of not having seperability as a recognition criteria.

We're not good… We don't know what to do with unit of account things, but I think you're right. In my mind, it doesn't much matter, except when I get to intangibles. Then it matters only because it's so much more difficult to figure out what to do.

We have to separate these assets. For me as a potential investor, or a potential creditor for a company, I need to see whether this one million will be worth…

I can mark-to-market if you want to know what it's worth. That's OK, just fair value the plant. You don't care whether there's machines in the plant. All you care about is that the thing produces automobiles. You really don't care. The only reason we split this thing up between land, buildings, and equipment, is because we want to depreciate them differently. It has nothing to do with the asset. It really has to do with the allocation of cost after it's recorded as an asset.

It's a problem even with fixed assets.

Part of what we've got here is a lot of computer software to run these machines that aren't of any use to anybody else except me. They're not separable from the equipment, because, if I could sell the equipment, those people would probably not run the equipment the way I ran it, so the software that's running it probably wouldn't work for them.

But if you thought software was about weather reports, and potentially sellable to anybody who is interested in…

There could be software that makes the equipment worthless without it.

The working definition has to take into consideration…if you don't want to say it's a recognition criteria…it has to take into consideration these issues like the unit of account.

The unit of account is one of the issues we keep delaying.

But you don't think it's a recognition criteria.

I don't think it's necessarily a recognition criteria. I currently don't think it. I've told you I've been around this thing about three times. At one point in time I thought one of the solutions to some of the asset things was to say a 'separable right.' That might be helpful. I'm not so sure it is.

For number eleven, Napier & Power (1992) uses the term 'measurement separability,' which collapses the three stages of identification, recognition, and measurement, into one stage, on the basis that if one can measure an asset, defacto one has simultaneously identified and recognised it. In what way would you agree or disagree with this term?

I just built this plant. I hired you guys to build me a plant. I turned the key, opened the door, and it works. I paid a billion dollars for it. I guess I have measurable separability... It must be I do because I got the plant now and I wrote you a cheque for a $billion.

But you are going to have here the measure of separability for the whole group.

This doesn't answer that question. It's either a group or a single thing.

The point here is whether you agree that it will be separable measurement for each asset.

It doesn't say that. That's in the circular because I can define the asset is the Ohio Manufacturing Plant. I don't have to say 'the equipment in', 'the land under', 'the building on', 'the driveway in'…In fact most businesses are not managed this way. This is an accountant's internal control kind-of-thing. They don't say General Motors is considering of disposing of equipment in Athens, Ohio, and disposing of a building, and…They say

‘They’re going to close down the Ohio plant and liquidate it.’ So, I don’t think it answers any questions. I am saying it doesn’t answer the question. I’m not saying it should or it shouldn’t. There are reasons sometimes when you do want to know these breakdowns.

If you say ‘I’ve measured it and recognise it, albeit as an investment of a plant, or whatever…that’s one way you can do it. Or you can say, no, when we look at the issue of separability what should happen as a-priori is that we’re going to look at the asset itself and whether that asset by its nature is separable from the others. There’s two ways of looking it.

You could have the Ohio, Kentucky, Missouri, and Michigan plants, all in corporation A. If we bought all of those we could just say ‘corp A’ on our balance sheet. That wouldn’t be very useful to anybody and that isn’t really the assets we’re managing. How high up do you want to go or how far down do you want to go. I don’t think we know the answers to any of that. I know a screwdriver is an asset. I don’t think you want those separate on the balance sheet.

It’s the fact you’ve now recognised the asset because you can visually see it.

And that makes it an easier question for us, doesn’t it?

Should we apply the same to an intangible asset, even though it’s invisible?

The right way for you to phrase that question would be: let’s just take these four plants, but this plant right here has a very beneficial labour contract. Are all four of those worth the same thing? They are maybe in terms of their physical assets, but this one is going to be more profitable because of that. I think we’d say in business combination accounting this should be separably recognised – should be separated.

This was my argument in the very beginning when I told you that if we take off one of the assets that this means the others may fall down because one of them may have more future benefits. This asset creates more future economic benefits than the others.

No, this labour contract doesn’t help these others or hurt these others. They’re going to be whatever they are. If we mush all those together we lose the information content of that.

So would you accept separability has a recognition element as well as a measurement element, even in the cases where recognition is problematic. That’s the tricky question?

You couldn't sell a labour contract. It's not really separable. That's just separately identifiable. That's a different notion of separability than separately measurable. Do we really mean separately measurable? Usually, separability has always been that I could sell it. But that's a hell-of-a-lot different than measurability. I can measure this, but I can't sell it.

Aren't you de facto arguing that separability is essentially a recognition issue first?

Before it's a measurement issue. Maybe it is.

You need that for intangibles as well as tangibles…The real problem is where it's intangible. The first step has to be the acceptance of an a-priori stance on this.

Interesting.

Do you have any views about how non-transaction based or internally generated intangible asset can be disclosed on the financial statement…we have to extend the non-transaction base? We have to extend our arms length from just paying or purchasing goods and services. This is a question for intangibles.

You say 'could be disclosed'. You must mean recognised.

Yeah, recognised in the financial statements.

We do recognise some you know: results of research and development for example gets capitalised.

Or internally generated goodwill.

Internally generated goodwill usually doesn't, but R & D does, brands do in some places.

But under certain criteria this means that there are some others who wouldn't be able to recognise.

That's an accounting standards issue. It doesn't mean they aren't assets. Definitionally, you can't argue they're not assets.

So you're coming back to your original position of, if you can find it's an asset, measure it, and that's it. The fact it doesn't have to be transaction based doesn't matter. It's still an asset.

You may say I'm not gonna for whatever reason but that's not going to be a conceptual one. It's some accounting standards that said 'don't do it,' for some reason.

So, if you decide a brand is an asset, and it was capable of being measured, as far as you're concerned, it doesn't have to be linked to the transaction of goodwill. If an asset meets the definition of asset…

I think you have to say that or else you aren't applying your definitions. At some point in time the problem is we're heading down that slippery slope, but we're just gonna book the market cap [capitalisation] again. The measurement of those are going to take into consideration all the expected future flows. We're just chasing our tail, aren't we?

Do you have any views about the use of asset recognition criteria as a basis for the recognition of an asset?

We have to meet the definition…

And they should be measured.

Unless we're going to list a bunch of things and record zero.

They should have some other characteristics or guidelines, like, for example what you have all said about separable rights. It's not mentioned in the current definition. If we have other characteristics for an asset…

I think separability is more indicative of knowing you have the asset, not whether it's an asset. Its just that once you can see that you can separate it and sell it, you say 'God, it must have been an asset. I could have separated and sold this thing.' It isn't really…

But it might be a base for accounting recognition

It's kinda 'Gosh, I haven't been thinking of this as an asset but I can sell it. So, how can it not be?' It goes back to the first thing…it's just more evidence that you must have met the definition.

What about the word 'control'? What do think it means? This control would be delayed to the recognition phase. That's why I got it into my mind you should have a recognition phase.

I don't know. The word 'control'…because the word has been used in different ways, it has been problematic. I'll give you another transaction you should think about, in terms of asset recognition. You're an insurance company, and I walk in today and buy from you a life insurance policy. I pay you a thousand dollar premium. Ok, you guarantee my insurability for the rest of my life. I'm going to be paying you a thousand dollars for as long as I live and I look a lot younger than I look. I'm 25, OK? Now, I'm paying you a thousand dollars for a policy that I could get the same death benefit for three hundred dollars. Why did I pay you a thousand? Well, there's a savings feature in there. You get to accumulate some cash. But I bought this guaranteed insurability. You now are at risk for my health. Three or four years from now you might not wanna be insuring me at all, but you have no choice. As long as I pay the $1000, I'm still insured. Do you have an asset for my future premiums?

It lacks control.

No, it depends on what you mean by 'control'. You can't make…(this is why I say its passive)…me pay the premiums. But if I pay 'em, you're the one that's gonna get 'em, not this other insurance company over here. As a result, you control his access to those premiums. He doesn't even know about me. If you mean control is that, if it happens, you're going to get it – nobody else is going to get it – then control is a useful phrase. If you think control means you can force me to pay the premiums, we don't agree. Collectively, the Boards' don't agree on which notions of control are inherent in the asset definition.

That's why I'm saying the word function of an asset is very important to clarify. If you don't want to say control, we can put in other guidelines.

That's why 'limit others access to' is a replacement for 'control'. The implications of that little transaction of insurance are huge because it means I can write options, which means create liabilities, but thank god they're assets. Isn't that neat? The more liabilities I have, the richer I get.

It's very confusing.

I don't think so. Most people don't think in terms of writing options and creating assets. Do you think airline frequent flyer programmes represent liabilities or assets?

It's the same issue?

It's the same issue. I think the frequent flier program of British Airways is an asset. They're going to have net inbound cash flows as a result of that programme, not liabilities. If you wanted to create a liability for the miles then you say 'yes' but if you have to pay this I 'm gonna get this. And that's what the insurance example is. Yeah, I'm gonna have to keep insuring Liesenring and 'yes' he's gonna die someday but he's only going to die 43 years from now and meanwhile I've collected $43000 in premiums. It's not unrelated to the thousand dollar transaction in that the simultaneous creation of the asset and the liability.

I think a lot of assets are going to get that way in the future…we are talking about the balance between the two [ie net assets or net liabilities]

I actually think that between the two boards – FASB and IASB – the IASB board has changed completely in that attitude. That's the difference between the US application of the asset definition and the world's is...

The objectivity of the world.

No, internationally, there is too much emphasis in both asset liability definitions on the result of having the right, or the result of being obligated, which focuses on the in or outbound cash flow. They're focusing on the flow...All sorts of things that are dead flat certain to occur in the future are not assets. Next year's sales? I guarantee you General Motors for all the problems will have sales next year. I don't think they've got an asset. So, focusing on the flows misleads people. And that's where most of the world has been. A lot of things got recorded as liabilities because they felt 'this is going to get paid,' but I don't have a present obligation to pay it. That tension is one of the things that has caused us to not reach agreement as quickly as we might have on asset/liability definitions.

Anyway, thanks

You're welcome. Good luck to you.

Appendix C: Coding Structure

Codes	Interviewees	Interviewees' comments
Asset definition in respect of asset recognition process:	*AcSB member (1)*	*"**so would you please go to question three: the definition of an asset appears to occupy a central role in the accounting recognition and measurement of assets. Would you agree?** Yes! Absolutely, again as I said this morning, you have to start somewhere in preparing financial statements, and no one comes up with another model that starts anywhere other than the 'assets'. I think that it is the intuitive place to start. If I am going to develop a model of measuring the wealth of my organization, and the changes in the wealth of my organization, the logic of where to start is by looking at the things I've got, and that's the 'assets'. **Please would you give me your views on that role for asset recognition and measurement purposes?** I think everything evolves from that, so once you decide what are the things you have got, then if you are going to build a financial reporting model you've got to decide which of those things you have got that you are going to put in the financial statements … that's recognition, of course. Actually, am I going to recognize and record in the books, because the financial reporting or prime financial statements are about putting numbers on things? You've got to put some kind measurement on it. You have to decide what's the monetary number you are to put on something, so that builds to the measurement"*
	AcSB member (2)	***[The definition of an asset appears to occupy a central role in the accounting recognition and measurement of assets. Would you agree?]** Absolutely. Where the conceptual framework has gone, the asset one comes first because the liabilities one is a mirror of the asset one. I would absolutely agree. It's not a bad rule. I mean they're trying to switch it from this perspective of looking at the future to simply statements of what is. You can see the trains of Friedman and positive theories coming up in the way they've even phrased the definition. I think… Where they're going with the 'what is,' I think I like those rules. The rules are actually a little friendlier to looking at intangibles…*
	IASB member (1)	***[The definition of an asset appears to occupy a central role in the accounting recognition and measurement of assets. Would you agree?]** It's the only real thing. There isn't anything sacred about that*

	IASB member (2)	***[The <u>definition of an asset</u> appears to occupy a central role in the accounting recognition and measurement of assets. Would you agree?]*** *I do agree, I think that the <u>definition of an asset</u> is central. If we think about a firm, a firm has assets and has claims against those assets. This is the way I think about it and the claims are...either we classify some as liabilities and some as equity but all are claims against the entity. So, liabilities are claims against the assets, equity is a share in net assets. So, it does not only play a central role in accounting but it plays a central role in economics of firm if you think about it. How to assess claims?*
	IASB member (4)	*The <u>definition of an asset is critical</u> because that is the filter, if you like. That's what you must go through for something to be recognised as an asset. That is critical*
	IASB member (5)	*The only other people who do it the way we do are diplomats when they talk about recognising a country, you know, as if mainland China wouldn't exist if you didn't recognise it. I think there's a lot of 'tension' around recognition. Intellectually and logically, anything that meets the definition of an asset should be recognised in the financial statements. There are lots of things that meet <u>the definition of an asset</u> that aren't recognised: patents…. Brands, things like that, without question meet the definition of an asset. If they're internally generated, they are either not recognised at all or they're recognised at an amount that's just silly. There is that tension between definition and recognition, and that leads some people to believe, including a lot of our constituents, that there should be a separate recognition criteria, which should somehow define the class of things that meet the definition that are recognised. Now in the new definition, one of the concerns about the work that has been done on the new definition of an asset is the question in some people's minds, including mine, that it has so broadened the definition of an asset, compared to the old definition, that increases the tension because now all of a sudden blue sky and fresh air might meet the definition of an asset……… A definition has to both describe what it is and what it is not. That's to the extent that a new definition doesn't do a good job about defining what it is not. That's going to increase the tension about needing to have a separate recognition criteria.*

	UK ASB member	*I think it's right that the natural thing to start with is to <u>define an asset</u>, simply because assets are where business starts. If there are no assets, there's no business.*
	IASB research fellow	***[So you mean that the definition will be all-inclusive, including the definition and including also the criteria to recognise assets in financial statements].*** *The way I would see it is there should be a framework that <u>defines in principle what an asset should be</u>, but no presumption that is applied universally. The framework is not a standard. It's 'This is what an asset is.' What you include in the financial statements should meet a test of reliability of measurement, and the default of not including something which meets the definition of an asset, but can't be measured reliably, should still be there*
	Accounting expert (3)	*first of all, the <u>asset and liability definitions</u>, as in the current framework, and also as proposed by the boards now, are vague. It's unclear what falls within them and what falls without them. If that's going to be the only recognition criteria, we're going to have trouble.*
	Accounting expert (4)	*Once you decide <u>what an asset is</u>, and you recognise it in the accounts………… I think it's a good place to start………….*
Asset-Liability conceptual primacy	*AcSB member (1)*	*"You have to start somewhere in preparing financial statements, and no one comes up with another model that starts anywhere other than the 'assets'. I think that it is the intuitive place to start. If I am going to develop a model of measuring the wealth of my organization, and the changes in the wealth of my organization, the logic of where to start is by looking at the things I've got, and that's the 'assets'.* ***[Then you agree with the view that <u>Asset-Liability</u> is the conceptual primacy for all elements in the financial statements].*** *Yes.* ***[As there is a conflict or a debate in the accounting literature whether to start with Asset-Liability view or Revenue-Expense view].*** *The point that I tried to make this morning is that there are people definitely who argue about Revenues—Expense view, but then if you challenge them to ask them how they define Revenue & Expense to start with, that view, to my knowledge, no one comes up with workable definition of revenues and expenses that does not draw back on Asset & Liability. Whilst Revenue & Expense in the income statement may be argued to be more*

		important in some cases, there is no way to just start there. You have to start with real things, which is things you've got, you have then claims to those things, and then after that comes the changes in things which are income and expenses".
	AcSB member (2)	***"[Do you think that <u>asset liability view is the conceptual primacy</u> for all other elements in the financial statements, or revenue and expense view?]*** *That makes sense to me. One thing I've struggled with is – and he always says 'what would you do under historical cost, what would be your fundamental building block' – and he says it's revenues and expenses, but it's not. Even though historical cost, yes, you do go to revenues and expenses before you go to assets and liabilities, because they're residual, but the fundamental building block that I have to build it would be the transaction. It's the economic transaction….Even though historical cost, yes, you do go to revenues and expenses before you go to assets and liabilities, because they're residual, but the fundamental building block that I have to build it would be the transaction. It's the economic transaction. Then the question is, under historical cost, if you have a fundamental transaction, you have some debits and credits, and then you have some rules about where they go. Ultimately, the way they go is you have revenue recognition, following by matching what drives your expenses, and then the assets and liabilities are residuals. The fundamental building block is to identify an economic transaction. While I'm happy about the assets and liability view……. Nobody has ever shown that following these asset and liability rules get the best information for investors, but that's where it starts. It's all about information."*
	IASB member (1)	*"Assets are real, liabilities are real. Everything else is dreams of accountants." [So you agree that the <u>Asset/liability view has conceptual primacy</u>…?] "Yes, nothing else works."*
	IASB member (2)	*"<u>Assets are the place to start…that is, the central role …primacy</u> is just the way to calculate income and expense in a way that makes sense to me."*
	IASB member (4)	*"There is no doubt that the <u>asset/liabilities view</u> has the conceptual primacy…because a liability is defined as an obligation to sacrifice assets…'Asset' is an absolute core for the conceptual framework."*
	IASB member (5)	***"[We deduced from the first round of interviews with IASB Board members that: In respect of the five basic elements of accounting (assets, expenses, liabilities, income and capital) primacy is given to the definition of***

		an asset. What is your view on this deduction?] *That's absolutely true. <u>Asset primacy</u> is the whole basis of our conceptual framework. I don't know how much the others talked to you about that, but, if you think about it, you can't start any place else. You can't have any of the other elements. You can't define them without making some reference to assets, so assets must have conceptual primacy. That bothers some people"*
	UK ASB member	***"[The definition is the conceptual primacy; as you told me, it's the start point. It's not the primacy for the priority].*** *<u>It doesn't dominate. [**It's just to be the starting point].**</u> Yes. I think some people think of it as more than that, though. They tend to think that the asset definition has to dominate everything else. I'd say, if I then think about liabilities and think about equity, and I find the definitions of those two don't mesh with assets, I'd want to revisit my asset definition to make sure that I have got it right. I'd think 'Why don't I naturally get that consistency."*
	IASB research fellow	***"[We deduced from the first round of interviews with IASB Board members that: In respect of the five basic elements of accounting (assets, expenses, liabilities, income and capital) primacy is given to the definition of an asset. What is your view on this deduction?]*** *Yes, I think that's right. I think it's unavoidable, actually, you know. The way the framework is set up, once you've defined an asset, a liability is defined as the opposite, then equity or capital is defined as the difference, income is defined as a positive change in capital and expense is defined as a negative change in capital. <u>Everything follows from the definition of an asset, and that gives is primacy</u>. I suppose, in principle, you could define a liability, and then an asset is the opposite. Net assets are… It's difficult to think of another way of doing it. [**From the literature, there are some people who are in favour of using revenue expense view to be the conceptual primacy]** The problem with that is that nobody has been able to articulate what that means. I think you can define what an asset is, and I think the framework does a decent job of doing that. You can define revenue as a change in an asset. If you try and define revenue directly, I don't know how you do that. I don't know how you do it from the asset base, either, because the revenue recognition project is problematic.*
	Accounting expert (3)	***[From your point of view, when can you disagree with t his assertion (asset has the conceptual primacy)?]*** *I'm just saying that for anybody to agree that this makes sense you have provide a link between the decision*

		usefulness objective and the asset liability view. No such link has been provided. From practice, as you may be aware, I practice as a technical partner within Ernst Young. From practice, I know that on several occasions we do have the asset liability view deducted accounting policies that obviously do not facilitate decision usefulness. ***[In this case, which element will facilitate the decision usefulness?]*** *Sometimes the asset definition or the liability definition, <u>the whole point with asset and liability definitions is they will preclude some types of debits and credits to go to the balance sheet</u>. Sometimes those definitions do not allow for certain elements to be included in the balance sheet that from a decision usefulness perspective…….. When analysts get the financial reports, they clean out things that they do not believe should influence earnings. Sometimes, for instance, in the case of regular distances, utilities, for instance, which is regulated in many European countries, analysts clean out the asset liability based revenue and expense numbers because they don't think they facilitate the earnings number. That says to me that there may be something wrong with the asset liability view. I'm just saying when the analysts clean out things from the financial reports, from financial numbers, which they are going to be using for their purposes; I'm just asking can this be right? Does the asset liability view follow logically from the decision usefulness objective? I'm saying maybe it doesn't. I don't know the answer, and nobody does. The FASB didn't care to look into this in a more comparative manner.* ***[It's very important for me. I would like to know the links between the objectives and qualitative characteristics, and defining the elements, because it is very important].*** *Exactly…….. I'm saying I don't have any view on that deduction, except that I don't know how they got from the decision usefulness objective to the asset liability view.*
	Accounting expert (4)	***[We deduced from the first round of interviews with IASB Board members that: In respect of the five basic elements of accounting (assets, expenses, liabilities, income and capital) primacy is given to the definition of an asset. What is your view on this deduction?]*** *Once you decide what an asset is, and you recognise it in the accounts, you then get a balance sheet approach to income measurement, and a change in an asset will give you a gain or a loss, and then you would categorise that gain as either being capital in nature, or revenue in nature, and allocate it to a section on the income statement, either profit and loss, or to total gains, or to reserves. I <u>think it's a good place to start. You then define a liability as a negative asset,</u> and expense and income become changes*

		in assets and liabilities. Because we live in a capitalist society, capital becomes a residual after the liabilities of a business have been covered. I'm quite happy from my own personal, political perspective, to have capital as a residual. In some command economies you would have a different accounting equation. You would have assets equal claims on assets. But we live in a capitalist economy, and, as a result, I'm quite happy for capital to have the risk and the return. I'm quite happy for capital not to have a definition, and to be defined as a residual after assets and liabilities have been mashed. I agree with the [this] deduction.
Revenue-Expense conceptual primacy view	*AcSB member (1)*	*"You have to start somewhere in preparing financial statements, and no one comes up with another model that starts anywhere other than the 'assets'. I think that it is the intuitive place to start. If I am going to develop a model of measuring the wealth of my organization, and the changes in the wealth of my organization, the logic of where to start is by looking at the things I've got, and that's the 'assets'. [**Then you agree with the view that A-L is the conceptual primacy for all elements in the financial statements].** Yes.**As there is a conflict or a debate in the accounting literature whether to start with Asset-Liability view or Revenue-Expense view.** The point that I tried to make this morning is that there are people definitely who argue about R-E view, but then if you challenge them to ask them how they define <u>Revenue & Expense to start with</u>, that view, to my knowledge, no one comes up with workable definition of revenues and expenses that does not draw back on Asset & Liability. Whilst Revenue & Expense in the income statement may be argued to be more important in some cases, there is no way to just start there. You have to start with real things, which is things you've got, you have then claims to those things, and then after that comes the changes in things which are income and expenses".*
	Accounting expert (3)	***[From your point of view, when can you disagree with t his assertion (asset has the conceptual primacy)?]** I'm just saying that for anybody to agree that this makes sense you have provide a link between the decision usefulness objective and the asset liability view. No such link has been provided. From practice, as you may be aware, I practice as a technical partner within Ernst Young. From practice, I know that on several occasions we do have the asset liability view deducted accounting policies that obviously do not facilitate decision usefulness. **[In this case, which element will facilitate the decision usefulness?]** Sometimes the asset definition or the liability definition, the whole point with asset and liability definitions is they will preclude some types of debits*

		and credits to go to the balance sheet. Sometimes those definitions do not allow for certain elements to be included in the balance sheet that from a decision usefulness perspective…….. When analysts get the financial reports, they clean out things that they do not believe should influence earnings. Sometimes, for instance, in the case of regular distances, utilities, for instance, which is regulated in many European countries, analysts clean out the asset liability based <u>revenue and expense numbers</u> because they don't think they facilitate the earnings number. That says to me that there may be something wrong with the asset liability view. I'm just saying when the analysts clean out things from the financial reports, from financial numbers, which they are going to be using for their purposes; I'm just asking can this be right? Does the asset liability view follow logically from the decision usefulness objective? I'm saying maybe it doesn't. I don't know the answer, and nobody does. The FASB didn't care to look into this in a more comparative manner. **[It's very important for me. I would like to know the links between the objectives and qualitative characteristics, and defining the elements, because it is very important].** *Exactly…….. I'm saying I don't have any view on that deduction, except that I don't know how they got from the decision usefulness objective to the asset liability view.*
Economic resource	*IASB member (1)*	*'future economic benefits' is there (proposed asset definition) because it would not be a <u>resource</u> if it did not have economic benefits………* **[So do you think that any <u>economic resource</u> can meet the definition and it could not be measured?]** *I do not know what it is. But I have to accept that that's possible.*
	IASB member (2)	*Any type of right that you have, that the entity has, that is the <u>economic resource</u>. So, it has to be a 'right' that will generate economic benefits.*
	IASB member (4)	***[For an '<u>economic resource</u>' do you mean by it that it should have a value?]*** *It has a capacity to generate a value greater than zero probability of generating positive cash flows.*
	IASB member (5)	*I lapse back and forth between the FASB definition I grew up with and our [IASB] definition <u>'economic resource'</u> – what the FASB calls probably future benefit.*
	IASB research fellow	*Well, present <u>economic resource</u> is clearly an asset. The issue about present, as opposed to future, is not to do with asset or expense. That's just to do with one type of asset rather than another. 'To which the entity presently has an enforceable right for others to have access to.' Well, that's about whether the entity can claim ownership*

		or not. If it's an asset they can't claim ownership to… If it has spent some money on something, and it can't claim ownership to whatever it has spent the money on, then it's no longer an asset. That seems reasonable. It looks alright to me. ***[If you want to say that you have an asset and you have the right to this asset, what type of right do you have? Do you have the 'right' to use this asset? Do you have the right to this asset? If I have the right to this table, I have the right to use, to manage, to…]*** *If you think about spending on advertising, you could say it is a present economic resource because I expect to get benefit from having spent money on advertising. I expect my future sales to be increased. In principle, there is a realisable value from that. If I want to sell my business to somebody else, it's worth more if I've spent more on advertising than if I've spent less on advertising. It is a current economic resource. The entity presently has an enforceable right.* ***[So this right should be linked to some others]*** *I don't think it has an enforceable right, does it? I don't know what that means in that context. If I spent some money on advertising, I don't know what an enforceable right would mean in that situation*
	Accounting expert (3)	*I think what is an <u>economic resource</u>? That is a dimension of the asset definition. If you have an economic resource then you have the right to the underlying capital. You have the right to future income from that resource……. If I have any asset, there are future cash flows involved*
	Accounting expert (4)	*I would see an economic resource as linking to future cash flows. I definitely think that.*
Scarcity	*UK ASB member*	*"There are benefits like the ability to breath air, which are actually valuable. It's undoubtedly an asset. If somebody took the air away, you'd really regret it and want it back, but it doesn't cost you anything. That is a valuable benefit, but it's not a legal right because you don't have the right to stop other people from breathing it. It's just there's enough of it around and we can all breathe. I wouldn't put the air in the balance sheet because it's not a scarce thing. If it's <u>scarce</u>, other people will want it. Therefore, I've somehow got to have the ability to benefit from it myself, whilst stopping other people from taking it away from me, like my customers or the formula for coca cola. To that extent, there must be… That's more like control to me than a right".*
Economic benefits	*AcSB member (1)*	*"As to the ability to generate future economic benefits, I think essentially we have got the way we're thinking of the asset definition built into the definition of an asset. A fundamental aspect of the definition of an asset is the*

		ability to generate future economic benefits. If the thing you've got does not generate future economic benefits, it is either a nothing, or a cost, it's potentially a liability. So it is there, but it should not be a separate recognition criteria. That should be in the definition"
	IASB member (5)	*The right to income, you're running into the problem that Aristotle would have called circular definition. You're using, in your definition, terms that rely on your definition. Since income depends on what you define as assets, you can't use income in the definition of an asset. It has to be this notion of future economic benefits.* ***[So we can change it; instead of 'Right to income,' 'Right to future economic benefit.']*** *If you have control, you have right. I think it's control, which means it's mine, and it's economic benefits, and in the old definition it's the fact that whatever happened to give me that has happened. It's not dependant on something else in the future. As I say, most of these are characteristics, or functions…* ***[Features, for example].*** *Or features, but they're not necessary to the definition of the thing.* ***[Or even the link between the right and the economic resource, you don't think this can be the link between both].*** *They have to both be there.* ***[These eleven functions or whatever functions you think that… May be the link between the right and the economic resource].*** *In other words, what is an economic resource? Those are all… Most of those are characteristics of an economic resource, and the control is the fact that it's mine; I have the right to it. That's why I think we need control in the definition.*
	UK ASB member	*The main purpose of the asset is to bring you benefits, isn't it? This is just saying the ways you can bring benefits. Instead of listing eleven, I'd just say 'Well, the function of an asset is to bring me benefit in whatever way I can receive benefit.'* ***[I'd like to put a link between the right and the economic resource]*** *I see.* ***[In the proposed definition, they believed the word 'for future economic benefits.']*** *That's wrong. These are all rights to future economic benefit. You're merely listing them. The key thing is it has to be for future benefit. That's what makes it an asset. An expense is for current benefit and is written off at the end of the year. Even wages, in so far as you've paid in advance, you show it as an asset in the balance sheet. It's pre-paid, so you've got a right to benefit there. In the case of the labour force, you're not going to use them for security, transfer, and all this sort of thing. You're going to use them to work for you, so to control, to use, and to manage….. You've the right to benefit it from it, basically. I don't find it particularly helpful to go into that detail, you see, because we know an asset*

		brings us benefit in whatever way suits us in our business.
	IASB research fellow	*The question there is, if it's not enforceable, do you have a right? Probably not. I think it's overly wordy. Nevertheless, does it separate an asset from an expense? Well, present economic resource is clearly an asset. The issue about present, as opposed to future, is not to do with asset or expense. That's just to do with one type of asset rather than another. 'To which the entity presently has an enforceable right for others to have access to.' Well, that's about whether the entity can claim ownership or not. If it's an asset they can't claim ownership to… If it has spent some money on something, and it can't claim ownership to whatever it has spent the money on, then it's no longer an asset. That seems reasonable. It looks alright to me.* ***[If you want to say that you have an asset and you have the right to this asset, what type of right do you have? Do you have the 'right' to use this asset? Do you have the right to this asset? If I have the right to this table, I have the right to use, to manage, to…]*** *If you think about spending on advertising, you could say it is a present economic resource because I expect to get benefit from having spent money on advertising. I expect my future sales to be increased. In principle, there is a realisable value from that. If I want to sell my business to somebody else, it's worth more if I've spent more on advertising than if I've spent less on advertising. It is a current economic resource. The entity presently has an enforceable right.* ***[So this right should be linked to some others]*** *I don't think it has an enforceable right, does it? I don't know what that means in that context. If I spent some money on advertising, I don't know what an enforceable right would mean in that situation.*
Probable benefits	*AcSB member (2)*	***[This means you agree with asset to be probabilistic?]*** *For example, if you were to do a workforce and have human capital as an asset, unequivocally, human capital can add value to an organisation. In fact a large part of the value of an organisation, in the way the market would price it, would be human capital. Could we say something about the workforce and say that yes! it is an asset. I'd say yes. As long as there is something that binded that workforce, not as each individual but as a collective, and we can make some probabilistic statements about it, as long as I've bonded it to my organisation… For example, if they work together like…[a famous company], had some common knowledges and processes, then they have values as a workforce. As long as I have intelligent enough compensation policies, then I think I would have an intangible on workforce. It could be just*

		that I live in a town that's isolated, and people like living there and raising their families. That would still bind them to me. I would still reap the benefit of it. My organisation would be worth more because of it. Do we want to report on that? I would say it meets the definitions of nominal versus measurable. I don't think I would agree that you have to have this really secure notion. I think, in the end, I am a bit interested in understanding and conveying information. I think intangibles can raise information to a significant degree.
	IASB member (1)	*"the word 'probable' (that is in the FASB's) and 'expected' (that's in the IASB's) are both phrases that don't mean what the English language use of the word means. That has been problematic. So, if we do nothing else with the asset definition but find the way of expressing a different way from using word probable, or expected"*
Uncertain benefits	*IASB member (4)*	*"basically, the uncertainty that surrounds the cash flows that may be generated in the future. The uncertainties… Part of the recognition criteria that's in the framework are dealing with these uncertainties. It seems more likely that cash flows would be generated in the future. This is the thinking; we only want to put assets on the balance sheet if we think it's pretty sure that cash is going to be generated in the future. This is dealing with that conservatism I was talking about before. I think we had passed this now. So we say it is an economic resource. Nothing certain in this world, so there's uncertainty about the amount of cash flow that would be generated in the future and the timing of those cash flows. So what we need is a measurement approach which deals with uncertainty. That's why I have been a fair value proponent.*
	IASB member (5)	*If you look at assets …… it only allows you to recognise those if they are virtually certain. That's a good example of a standard that has a conservatism bias. It's a wrong answer. You ought to have the same answer for assets with uncertain settlement, as you do with liabilities that have uncertain payout.*
Rights	*AcSB member (1)*	***[Do you have any views on the assertion that, in general, a business cannot use an asset unless it has a 'right'; legal or otherwise to do so? Also, Whilst there are clearly 'rights' attached to the recognition of an asset, for example, ownership rights, can you think of any 'rights' attached to the measurement of assets?]*** *I agree entirely with that. That's hitting right on what we are developing with the new definition of an asset – the fact that the entity has to have link to it, we focus in on it being a right, and the fact that it is legal right or not is very important. We had a lot of discussions about whether to restrict it only to legal rights. We're not restricting it to*

		that. There can be instances where you have assets that are not a legal right. **[here are clearly 'rights' attached to the recognition of an asset, for example, ownership rights, can you think of any 'rights' attached to the measurement of assets?]** *I am not sure that I can see 'right' and measurement as being linked to each other. I see 'right' at the existing level again. I see as a part of recognition that the 'right' are what links the good things, the beneficial thing to the entity, so I do not really see that as a part of measurement.* **[If we link the features proposed by Honore (1961) with those rights; for example right to control, right to use, right to manage, and so on, are these considered to be assets?]** *Yes. Those are the kind of 'rights' we were talking about. Those for me are all dealing with the asset itself and the recognition and they are not dealing with measurement."*
	AcSB member (2)	**[Do you have any views on the assertion that in general a business cannot use an asset unless it has rights – legal or otherwise to do so?]** *I definitely think it should be something more than legal. I think the example I gave you about a workforce… It doesn't even have to be a right. As long as there's something that binds it to me, I think I'd be willing to think about something being an asset.* **[It doesn't have to be a right]** *It doesn't have to necessarily be a right. I think that's where you can speak probabilistically a bit.* **[I don't mean 'right' by the legal form. 'Right' means that access to the right to use, right to have this asset. I don't mean it's a legal form. I don't mean it should be associated with a legal or contractual form. I mean an access to]** *If we take a very broad view of rights then that's fine. The question is if we're going to use a term in a conceptual framework or otherwise then it's pretty vague. The conceptual framework ought to have language that tries to put out a clear barrier around what the right is. If all we say is legal or otherwise then people are going to wander around saying 'well, it must be something very much like a legal thing.' I kind of envisage some assets that are not very much like legal. Unless we can clutch out the otherwise, I probably would be careful of the use of the word 'right.' In other words, if the word 'right' comes with clear legal connotations in most people's minds then I'd back off using the word 'right,' because I think the CF should be written in a way that people can understand it. I think that's one of the things that I dislike about accounting documents. You'll regularly see them use a term that has a totally different meaning in day to day living. It isn't defined, so how can it possibly be a useful communication? It has a meaning other than what you would expect, and I'm using it in a way that I know. I*

		don't define it anywhere, so how can I communicate to you? I would be really careful of the word 'right.' I think they need something other than saying 'or otherwise' if they're going to write a proper CF.
	IASB member (1)	***[Do you have any views on the assertion that, in general, a business cannot use an asset unless it has a 'right'; legal or otherwise to do so? Also, Whilst there are clearly 'rights' attached to the recognition of an asset, for example, ownership rights, can you think of any 'rights' attached to the measurement of assets?]*** *Yes, whether it is control or control to others' access. I do not think that this is as important as people think it is. The functionality will be part of an asset."*
	IASB member (2)	*Any type of right. Any type of right that you have, that the entity has, that is the economic resource. So, it has to be a 'right' that will generate economic benefits….* ***[Therefore, the right here is a contractual right; this means that there are different types of rights?]****Yes..* ***What other?*** *Legal rights are enforceable, that's why the word enforceable …all the 'rights'. Generally, the rights that give you access to benefits: that you can easily limit others' access, or you have rights to, are enforceable. If they were not enforceable you really don't have anything. If I have the right to this table, whether I am leasing it or I own it…whatever my right is I have the right to the use of this table. If I cannot enforce my right…so you can come in and use it...if I cannot stop you from using it because I have no enforceable right to this table or my 'right' to this table is not enforceable, then I do not really have an asset because anyone can come and use it and I can not stop them. Lots of different types of rights are enforceable. Enforceability is really a way, a signal that says that you have an access to and other people do not…… We are just trying to say what we meant by present rights, what kind of a right"….. Somehow you are gonna have to figure out what your right is…what asset you have control over…whatever words we use…present rights to what?............... So, if I can figure out how it is an asset by control*
	IASB member (4)	*"All those things. When you say …..it gets a bit tricky….. If Coca-Cola, as you say, it as an example, it has a formula that is hidden. Nobody knows what it is. That gives it its value. No one knows what this formula is; now is it a legal right? No. It has not been patented. The name has, but not the process. They have the ability to control or to access the benefits by keeping that formula secret. It is not legal right…****[That's why you would like to add the ability to control, ability to manage, ability to use…]*** *It is the evidence that you have the 'right'. The 'right'*

		may be created through a contract. The 'right' may be created through a contract. The 'right' may be created through avoiding others to access to your assets.
	IASB member (5)	***I think from your views, the word control is very essential to an asset. Why did you delete it from the proposed conceptual framework?*** *I would not have. But tragically, I don't get to vote. I think we're going to wind up omitting the word and then trying to do exactly the same thing that it does. The tension around control is whether it means control in my ability to deny others access, or whether control means my ability… the fact that, if benefits flow, they will flow to me. Does it mean my ability to force someone to do something? We could have, and I think we will wind up… We will take out the word control and then we'll come up with words that do exactly the same thing, because the notion is the economic benefit is mine. I'm going to use the word control; you're going to have to use something else*
	UK ASB member	***[What is your view on the assertion that the recognition for asset is predominantly about recognition of rights, legally enforceable or otherwise?]*** *Legally… A right that's not legally enforceable, in some senses, isn't a right. There has been a lot of discussion on the board about whether it should be just legal. I don't think it should be legal. It's more difficult with assets than it is with obligation. It's easy to think of obligations that are maybe legally enforceable, and may not be, but they're created by custom and habit.* ***[IASB member (5) told me there was a discussion about when they were putting the definition because some of them disagreed they can delete the word 'control' from the definition, and some agreed they need it, and so in order to trade off the word they put the word 'Rights or other access']*** *I don't think the rights, 'control' the asset much more.*
	IASB research fellow	*The question there is, if it's not enforceable, do you have a right? Probably not. I think it's overly wordy. Nevertheless, does it separate an asset from an expense? Well, present economic resource is clearly an asset. The issue about present, as opposed to future, is not to do with asset or expense. That's just to do with one type of asset rather than another. 'To which the entity presently has an enforceable right for others to have access to.' Well, that's about whether the entity can claim ownership or not. If it's an asset they can't claim ownership to… If it has spent some money on something, and it can't claim ownership to whatever it has spent the money on, then it's no longer an asset. That seems reasonable. It looks alright to me.* ***[If you want to say that you have an asset***

		and you have the right to this asset, what type of right do you have? Do you have the 'right' to use this asset? Do you have the right to this asset? If I have the right to this table, I have the right to use, to manage, to…] *If you think about spending on advertising, you could say it is a present economic resource because I expect to get benefit from having spent money on advertising. I expect my future sales to be increased. In principle, there is a realisable value from that. If I want to sell my business to somebody else, it's worth more if I've spent more on advertising than if I've spent less on advertising. It is a current economic resource. The entity presently has an enforceable right.* **[So this right should be linked to some others]** *I don't think it has an enforceable right, does it? I don't know what that means in that context. If I spent some money on advertising, I don't know what an enforceable right would mean in that situation.*
	Accounting expert (3)	*I have sympathy for that. I have sympathy for the 'right' concept, but the fact that one expands it to include enforceable; legally enforceable and other kinds of rights makes it more vague. If you take away all the other recognition criteria, and say that everything that includes a right, whether it's enforceable or not, is an asset. The only recognition criteria we have are not sufficient. It's not going to help us. I think… I agree with the concept of a right, but it's not clear to me what it really means. If I cannot enforce a right, how can I say it's an asset? I'm not concerned about the right part of it; I'm concerned about it not having to be enforceable…… I think an asset is a right to receive something. For something to have anything to do with an asset, it has to be an economic resource. To me, there is a link between the right and economic resource. The link is the right gives me access to that economic resource.*
	Accounting expert (4)	*"It's not predominantly, but that's one of the threshold criteria, isn't it? It's our asset; it's not somebody else's asset. We don't put other people's assets on our balance sheet; we only put ours on the balance sheet. That's a legal question I would agree with. That would be part of your pre-measurement test that you were talking about earlier. It would be a legal test"*
Preventing other access.	*UK ASB member*	*"There are benefits like the ability to breath air, which are actually valuable. It's undoubtedly an asset. If somebody took the air away, you'd really regret it and want it back, but it doesn't cost you anything. That is a valuable benefit, but it's not a legal right because you don't have the right to stop other people from breathing it.*

		It's just there's enough of it around and we can all breathe. I wouldn't put the air in the balance sheet because it's not a scarce thing. If it's scarce, other people will want it. Therefore, I've somehow got to have the ability to benefit from it myself, whilst stopping other people from taking it away from me, like my customers or the formula for coca cola. To that extent, there must be… That's more like control to me than a right".
	IASB member (2)	*Any type of right. Any type of right that you have, that the entity has, that is the economic resource. So, it has to be a 'right' that will generate economic benefits….* ***[Therefore, the right here is a contractual right; this means that there are different types of rights?]****Yes..* ***What other?*** *Legal rights are enforceable, that's why the word enforceable …all the 'rights'. Generally, the rights that give you access to benefits: that you can easily limit others' access, or you have rights to, are enforceable. If they were not enforceable you really don't have anything. If I have the right to this table, whether I am leasing it or I own it…whatever my right is I have the right to the use of this table. If I cannot enforce my right…so you can come in and use it...if I cannot stop you from using it because I have no enforceable right to this table or my 'right' to this table is not enforceable, then I do not really have an asset because anyone can come and use it and I can not stop them. Lots of different types of rights are enforceable. Enforceability is really a way, a signal that says that you have an access to and other people do not…… We are just trying to say what we meant by present rights, what kind of a right"….. Somehow you are gonna have to figure out what your right is…what asset you have control over…whatever words we use…present rights to what?................ So, if I can figure out how it is an asset by control*
	IASB member (5)	***I think from your views, the word control is very essential to an asset. Why did you delete it from the proposed conceptual framework?*** *I would not have. But tragically, I don't get to vote. I think we're going to wind up omitting the word and then trying to do exactly the same thing that it does. The tension around control is whether it means control in my ability to deny others access, or whether control means my ability… the fact that, if benefits flow, they will flow to me. Does it mean my ability to force someone to do something? We could have, and I think we will wind up… We will take out the word control and then we'll come up with words that do exactly the same thing, because the notion is the economic benefit is mine. I'm going to use the word control; you're going to have to use something else*

Legal vs. nonlegal	*AcSB member (1)*	***[Do you have any views on the assertion that, in general, a business cannot use an asset unless it has a 'right'; legal or otherwise to do so? Also, Whilst there are clearly 'rights' attached to the recognition of an asset, for example, ownership rights, can you think of any 'rights' attached to the measurement of assets?]*** *I agree entirely with that. That's hitting right on what we are developing with the new definition of an asset – the fact that the entity has to have link to it, we focus in on it being a right, and the fact that it is legal right or not is very important. We had a lot of discussions about whether to restrict it only to legal rights. We're not restricting it to that. There can be instances where you have assets that are not a legal right.* ***[here are clearly 'rights' attached to the recognition of an asset, for example, ownership rights, can you think of any 'rights' attached to the measurement of assets?]*** *I am not sure that I can see 'right' and measurement as being linked to each other. I see 'right' at the existing level again. I see as a part of recognition that the 'right' are what links the good things, the beneficial thing to the entity, so I do not really see that as a part of measurement.* ***[If we link the features proposed by Honore (1961) with those rights; for example right to control, right to use, right to manage, and so on, are these considered to be assets?]****Yes. Those are the kind of 'rights' we were talking about. Those for me are all dealing with the asset itself and the recognition and they are not dealing with measurement."*
	Accounting expert (4)	*"It's not predominantly, but that's one of the threshold criteria, isn't it? It's our asset; it's not somebody else's asset. We don't put other people's assets on our balance sheet; we only put ours on the balance sheet. That's a legal question I would agree with. That would be part of your pre-measurement test that you were talking about earlier. It would be a legal test"*
Contestable social construction	*AcSB member (2)*	*The conceptual framework ought to have language that tries to put out a clear barrier around what the right is. If all we say is legal or otherwise then people are going to wander around saying 'well, it must be something very much like a legal thing.' I kind of envisage some assets that are not very much like legal. Unless we can clutch out the otherwise, I probably would be careful of the use of the word 'right.' In other words, if the word 'right' comes with clear legal connotations in most people's minds then I'd back off using the word 'right,' because I think the CF should be written in a way that people can understand it. I think that's one of the things that I dislike about accounting documents. You'll regularly see them use a term that has a totally different meaning in day to*

		day living. It isn't defined, so how can it possibly be a useful communication? It has a meaning other than what you would expect, and I'm using it in a way that I know. I don't define it anywhere, so how can I communicate to you? I would be really careful of the word 'right.' I think they need something other than saying 'or otherwise' if they're going to write a proper CF.
Control, **Use,** **Manageable,** **Right to capital,** **Right to income,** **Secure,** **Transfer (Disposal),** **Time horizons (life of an asset),** **Prohibition to harmful use,** **Liability to execution,** **Residuary character.**	*AcSB member (1)* *,*	*"These are things that an asset can do because, as I look down this list [card 2], I guess I can see many of them are features of the asset definition…… The first one I honed in on is the fact that the entity has got to have the thing, which gets me into control, and the entity has to be able to do something useful with it. It has to get benefit from it, which gets me to the fact that they have to be able to use it in some way. They may use as a security, they may transfer it, I guess I agree unless it got a life to be able to use it. If it doesn't have a life, you've got no time to use it. If it's negative, it is probably not an asset. It is a probably a liability rather than an asset. Right to capital is getting economic benefits. It could be income or capital.*
	AcSB member (2)	*Again in this list, you jumped to see whether they are necessary or sufficient as some are necessary and some are sufficient; ability to transfer and residuary character would be a sufficient…**[What about right to income and right to capital..]** They are on an individual basis necessarily **[Control?]** In a broad sense, it is necessarily **[Use and manage?]** Necessarily.. If we use the notion of control, then the other three terminologies will come below.*
	IASB member (1)	*"I do not think that these functions are distinctive [the 11 functions]. In other words, if I control it, I can sell it, I can use it…"*
	IASB member (2)	*[These functions were introduced by Honoré (1961) – card 2] "That's fine. "[Can these functions be used as characteristics of an asset?] "I guess so." […all 11 functions, you agree…] "Possibly yes".*
	IASB member (4)	*[We put these characteristics – referring to card 2 – as links between the definition and measurement] "Yes, it is, in a sense, explaining the 'right or other access'..**[Do you think that one asset has to have all these links, or maybe one or two?]** No, not all of them, because there may be certain restrictions on you that can be imposed by contract, legislation, or by statute. It may limit your ability to use an asset in a certain way; it does not mean that you do not have this asset. For example, there may be a restriction on you to be able sell it to a third party, but*

		this does not mean that it is not an asset because it still has the capacity to generate cash flows through use. This means that it is your asset. So limitation on your ability does not mean that you do not have an asset, but the most important thing is you have the ability to deny others to have an access to that asset. So you can sell it, you can use it, and you can deny others from using it. **[So you want to put and / or between each one of these].** *Yes. You can say right, but it's more ability. I think a 'right' is trying to capture everything like a generic term. Right and other access means it is yours. What evidence do I have that 'Right' exists that gives me this economic resource? So the evidence is, because of the 'Right,' I can sell it, I can use it, I can pledge, use it as a security, and so on, so it is an evidence if you like"*
	IASB member (5)	*The tension around control is whether it means control in my ability to deny others access, or whether control means my ability… the fact that, if benefits flow, they will flow to me. Does it mean my ability to force someone to do something? We could have, and I think we will wind up… We will take out the word control and then we'll come up with words that do exactly the same thing, because the notion is the economic benefit is mine. I'm going to use the word control; you're going to have to use something else……These are things that happen with assets. The question is, are they necessary to the definition. I think the thing that is necessary to the definition is number one: control, number two: this notion of the fact that because I have control I will get benefits in the future*
	UK ASB member	*I don't think the rights, [the interviewee thinks in the word] 'control the asset' much more. The examples for assets where there isn't necessarily a legal right is where you can stop other people from using it. The secret formula list is an example. It isn't patented or anything, but you have physical possession. I expect you have a legal right to a piece of paper. But most assets are covered by legal rights, but I don't think the definition should confine itself to legal rights. It should include things that aren't legal rights, but you can use and benefit from that other people can't. Position in the marketplace is like that. Brand names often sell because of the marketing ability of the firm, not because of the brand name. Customer lists are sometimes like recipes and are referred to as being things that aren't legal rights. You don't have those customers as slaves, but you do have a network of connections with people. I think there are things that aren't strictly legal rights that you control and are benefits. I think it's a pity the word control went out there. It's things over which you have control. There are benefits like*

		the ability to breath air, which are actually valuable. It's undoubtedly an asset. If somebody took the air away, you'd really regret it and want it back, but it doesn't cost you anything. That is a valuable benefit, but it's not a legal right because you don't have the right to stop other people from breathing it. It's just there's enough of it around and we can all breathe. I wouldn't put the air in the balance sheet because it's not a scarce thing. If it's scarce, other people will want it. Therefore, I've somehow got to have the ability to benefit from it myself, whilst stopping other people from taking it away from me, like my customers or the formula for coca cola. To that extent, there must be… That's more like control to me than a right. ***[IASB member (5) was in favour of the word 'control', but others didn't agree]*** *I think IASB member (5)is right. 'Control' does capture better what people mean. There is something broader than a legal right.* ***[All types of rights]*** *Yes. It's just that when you start talking about a right that isn't a legal right, it control…*
	IASB research fellow	*Control is enforceable right, in fact, and excluding access. I'm not sure why use is relevant. Manageable…* ***[If I have an asset, it should be managed, so I can manage it?]*** *But presumably it isn't a present economic resource if you can't*
	Accounting expert (4)	*I think that's quite a hard question to ask. I would see an economic resource as linking to future cash flows. I definitely think that. A 'Right' implies the future, because you have the right to use a brand name to stop other people using it, or a patent right.****[You are saying now those eleven functions – the right to use, the right to have future economic, the right to income… If you are going to think in more depth, you are going to find the right to economic resource will come out from these eleven functions].*** *The eleven functions are good. It's a question of whether an asset has to meet all eleven, or maybe one, or seven, before it's recognized. That's the issue. I can imagine some might meet six and not the other three.* ***[Then it would be the ranking].*** *Yes, some primacy of the core ones.*
	Accounting expert (3)	*Of course, I mean if something is going to be considered to be an asset, it must give you a right to capital. It must also give you a right to future income from that asset. That's quite obvious. I think if you control an economic resource then most of it is taken care of. Now you're asking right to capital and right to income, I think what is an economic resource? That is a dimension of the asset definition. If you have an economic resource then you have*

		the right to the underlying capital. You have the right to future income from that resource
Exchange or transfer	***UK ASB member***	***[Do you think existence will come before meeting the definition or in the pre-measurement phase?]*** *I think probability of existence is the point. Things do exist or not exist, unfortunately. We have to estimate whether they exist when it comes to these uncertain things like intangible assets and provisions for future.* ***[So do you think the existence comes before the definition or after it?*** *In order to know whether a thing exists, or to assess the probability of it existing, you need to have a precise view of what you're looking for……* ***[Existence here, when an asset exists, should this asset be separable?]*** *That's a very interesting question because if it isn't separable, when I come to measure it, it will be included in the total anyway. The issue then is at what level. I noticed there you said at what level of aggregation, should you operate? I'd say any level below the total business, as long as it's a meaningful level. By a meaningful level, I mean one at which the business itself would exchange this asset…….* ***[I think the word separability supports your view for the existence]*** *Yes.* ***[In order to exist, it should be separated]*** *Yes.*
	IASB member (2)	*"I do not think it is important" [definition in card 3] [But later on] "…separability is important because there is a notion that when you have control over something you can transfer it"*
	IASB member (4)	*"Separation, separability is not an essential characteristic…No, it doesn't have to be but if it is separable and someone will pay a price for it, then its evidence that you have an asset. If it is not separable, you still have an asset as long as it is an economic resource."*
	Accounting expert (3)	***[UK ASB member told me the separation here depends on the… The separability concept depends on the type of industry and the type of activity you are holding].*** *Absolutely. The whole point is that if you can separate something…Of course, you could say that could take out the seats, but it makes no sense. The most economic way to transfer the assets is by selling the coach, as such. You don't take out the parts. If it makes sense to sell the bus in parts, I would separate the parts.* ***[If you are working in a garage, a repair industry, we can sell the seats***

		separately]. *I'm saying you have to look at each part of any asset and determine whether it makes economic sense to separate it. If it makes sense to separate it then you do that, but you have to keep in mind the whole underlying idea is it's a going concern. Even if it makes sense to sell the seat separately, as long as my whole business relies on having these buses available, I wouldn't sell the seats. Maybe it makes no sense to separate them for valuation purposes.* ***[So you agree with the concept of separability within the circumstances of activity].*** *Yes*
Existence	***IASB member (5)***	*The only other people who do it the way we do are diplomats when they talk about recognizing a country, you know, as if mainland China wouldn't exist if you didn't recognize it.*
	UK ASB member	***[Do you think existence will come before meeting the definition or in the pre-measurement phase?]*** *I think probability of existence is the point. Things do exist or not exist, unfortunately. We have to estimate whether they exist when it comes to these uncertain things like intangible assets and provisions for future.* ***[So do you think the existence comes before the definition or after it?*** *In order to know whether a thing exists, or to assess the probability of it existing, you need to have a precise view of what you're looking for……* ***[Existence here, when an asset exists, should this asset be separable?]*** *That's a very interesting question because if it isn't separable, when I come to measure it, it will be included in the total anyway. The issue then is at what level. I noticed there you said at what level of aggregation, should you operate? I'd say any level below the total business, as long as it's a meaningful level. By a meaningful level, I mean one at which the business itself would exchange this asset…….* ***[I think the word separability supports your view for the existence]*** *Yes.* ***[In order to exist, it should be separated]*** *Yes.*
Separability	*AcSB member (1)*	*I am not sure that it is necessary to be able to separate something for it to be an asset. If you've got a big lump of stuff, it does not make it less of an asset if you separate it from an entity, or from other things. It certainly causes some measurement problems. You may have problems meeting, say, reliable measurement threshold, if there was one going forward to recognition, but I do not think whether something is separable, or not separable, changes whether it is an asset in the first place, or necessary whether it should be recognized, unless you gets into one of these other criteria.* ***[should they be separated?]*** *I would go and say I do not know when we should separate and when we should not separate* ***[But there are some articles which state that in order to recognize assets we***

		should identify it first, and accordingly we can measure it. So here identifiably or separability can be considered as a recognition criterion] *I do not think it is necessarily. Goodwill, I guess, is the case where we cannot separate it from the business as a whole. You can only dispose of it as a part of the business as a whole, or a piece of the business. I think we conclude that goodwill is an asset. So I am not sure I would see separability as a criterion of an asset, but I do say we still do not know when to separate or not to separate when we come to do the measurement of the asset".*
	AcSB member (2)	***[this means separability should be potentially a criterion for recognition].*** *I think separability is useful. It kind of goes to unitive account. It might be that we could separate them in different ways, but it ought to be separable in something that you can actually attribute a value – an identity and a value.* ***[What comes first, identify or to separate?]*** *Identify first.* ***[This means that the criteria should be separability, or identifiability, or identifiability could go under the asset definition]*** *I don't have a really solid answer, but I think identifiability is different to seperability, and I think it comes first. I don't have something more intelligent to say at this time.*
	IASB member (1)	*"I have been on both sides of the question as to whether they have to be separable or not. I don't think the answer can be yes…Let's assume that I've got four things and I use them as a unit. Maybe I could sell three of them separately, but I can't sell the one. I don't know whether it's important? Maybe it's just labelling. If I label this as four assets do I get a different answer? If I label it asset one, two, three and four? I don't know whether this is all just a unit-of-account measurement issue, or whether it is definitional and recognition-based?"*
	IASB member (3)	*"There are some who say that grouping…assets will give the same value as recognising them individually. Regardless, if it gives you a different value, some companies say that I can manage these assets on a portfolio basis…If you say you want a market-based amount you have to ignore the entity specific intent."*
	IASB member (2)	*"I do not think it is important" [definition in card 3] [But later on] "…separability is important because there is a notion that when you have control over something you can transfer it"**
	IASB member (4)	*"Separation, separability is not an essential characteristic…No, it doesn't have to be but if it is separable and someone will pay a price for it, then its evidence that you have an asset. If it is not separable, you still have an asset as long as it is an economic resource."*

	IASB member (5)	*The thing I think is key, and is especially important for your analysis, I think you have to answer unit of account before you answer definition.* ***[Whether you are going to define the item as an asset, or…]*** *You have to describe what it is you're applying the definition to.* ***[What's your item.]*** *Before you can apply the definition.* ***[As a general rule, which would be a sub-set of which? Control is a sub-set of separability, or separability is a sub-set of control?]*** *I can certainly have control over things that aren't separable. I can certainly have control over things that are legal right. I would refer to separability and legal contract as implementing devices, or implementing conventions that we use to apply the notion of control.* ***[This means that the notion of control is a set from which separability and legal rights are subsets].*** *Almost everything that we recognise in financial statements has the feature of separability or legal rights, but I don't think… I think that's an implementing convention rather than a fundamental principle……*
	UK ASB member	***[Separabilty here is an important criteria for measurement].*** *It is. It has to be separable, but you understand that it would be possible, if you measure at the fleet level, to measure at the individual level. In that case, if the way the entity does business suggests that you measure at a higher level, you can. My lower limit would be that it has got to be separable as a minimum requirement. I would aggregate, but I wouldn't aggregate to the level of the whole business, unless I was selling the business. It wouldn't be a going concern. I'd be saying the value of this business is what I can sell it for.*
	IASB research fellow	***[One of the characteristics that characterises an asset is it should be separable. Separabilty would be very important in intangible assets].*** *I don't think it's possible to define all assets as separable from each other in a meaningful way, such that they will add up to the value of the business. I don't think you can do that. I don't think you can take the value of the business and disaggregate it to individual values for separable assets. I'm not sure if that answers you question or not.* ***[But this will be in conflict of your words when you told me it's a bundle of assets].*** *It's not. If you had a series of individual financial assets that could all be bought and sold separately, if you add them all together…* ***[In this case we're going to ignore many other assets that should be measured and recorded].*** *I think it's not possible to have separability that aggregates to the value of the business. I think it's possible to have a National Express balance sheet that has got coaches and whatever else, but there will be a gap*

		between the value of those things and the value of the business. ***[Great. This means we don't have to aggregate those assets to be equal to the value of the business].*** *No. I don't think you can do that.* ***[This means that… I don't want it to be separated from the value of the business. We don't have to record National Express based on a higher level of aggregation, because if we aggregate them on a higher level of aggregation this means we are going to ignore some assets.]*** *Yes. I agree with that.* ***[This is the notion of seperability].*** *But think about the coach is itself an aggregated bundle of assets.****[Yes].*** *If you were to take the seats of the coach and value them separately…* ***[Of course not].*** *That's the value of assets in itself.* ***[I know. This is why UK ASB member clarified in his interview; he told me that it should depend on the level of aggregation. For example, for National Express the level of aggregation here may be a route of coaches].*** *Possibly.* ***[In a small car garage it may be a small chair… These are his parts and his assets separately, so it depends on the level of aggregation and the type of business use. So you are in favour of separability].*** *It depends what you mean by in favour.* ***[This means you are in favour that you have to separate assets, in order to know the value of the business accurately and to inform users by all types of information].*** *I don't agree with this.*
	Accounting expert (3)	***[UK ASB member told me the separation here depends on the… The separability concept depends on the type of industry and the type of activity you are holding].*** *Absolutely. The whole point is that if you can separate something…Of course, you could say that could take out the seats, but it makes no sense. The most economic way to transfer the assets is by selling the coach, as such. You don't take out the parts. If it makes sense to sell the bus in parts, I would separate the parts.* ***[If you are working in a garage, a repair industry, we can sell the seats separately].*** *I'm saying you have to look at each part of any asset and determine whether it makes economic sense to separate it. If it makes sense to separate it then you do that, but you have to keep in mind the whole underlying idea is it's a going concern. Even if it makes sense to sell the seat separately, as long as my whole business relies on having these buses available, I wouldn't sell the seats. Maybe it makes no sense to separate them for valuation purposes.* ***[So you agree with the concept of separability within the circumstances of activity].*** *Yes*
	Accounting expert (4)	***[Do you think the asset should need separability as a recognition criterion?]*** *No, because we put the whole value of the company in. Under our acquisition accounting rules, we get purchased goodwill. Say you bought a*

		company for a million pounds that had no assets or liabilities; you'd just be buying purchased goodwill. You would recognise that. But we still pay a million poundsYou couldn't sell that without selling the whole company. I think there are circumstances where you'd not meet your separabilty test. **[If you go to international accounting standard number 38, you are going to find that separability is one of the criterion for intangible assets].** *But not at the point of acquisition. The rules on acquisition accounting are more generous than the rule on recognition of intangible assets. You can get an intangible asset without an acquisition. So you have a football contract or .... That's what IS 38 is about. When there's a takeover or a merger, the rules are far more lax and you can recognise all sorts of things because you've got this big unknown number sitting on the balance sheet, called purchased goodwill. Regulators are quite free and easy at that point, I think. They say 'if you want to separate purchased goodwill into a few different intangible assets then that's fine.' If you're going to try and recognise a similar asset later on that you'd developed yourself, they'd stop you. It's just a question of pragmatism really. It's just the pragmatic recognition that when there's a takeover you get this massive balancing number called purchased goodwill. If companies can break that down then that's useful information.*
Unit-of-account	*AcSB member (2)*	**[this means separability should be potentially a criterion for recognition].** *I think separability is useful. It kind of goes to unitive account. It might be that we could separate them in different ways, but it ought to be separable in something that you can actually attribute a value – an identity and a value.* **[What comes first, identify or to separate?]** *Identify first.* **[This means that the criteria should be separability, or identifiability, or identifiability could go under the asset definition]** *I don't have a really solid answer, but I think identifiability is different to seperability, and I think it comes first. I don't have something more intelligent to say at this time.*
	IASB member (1)	*"I have been on both sides of the question as to whether they have to be separable or not. I don't think the answer can be yes…Let's assume that I've got four things and I use them as a unit. Maybe I could sell three of them separately, but I can't sell the one. I don't know whether it's important? Maybe it's just labelling. If I label this as four assets do I get a different answer? If I label it asset one, two, three and four? I don't know whether this is all just a unit-of-account measurement issue, or whether it is definitional and recognition-based?"*
	IASB member (5)	*The thing I think is key, and is especially important for your analysis, I think you have to answer unit of account*

		before you answer definition. ***[Whether you are going to define the item as an asset, or…]*** *You have to describe what it is you're applying the definition to.* ***[What's your item.]*** *Before you can apply the definition.* ***[As a general rule, which would be a sub-set of which? Control is a sub-set of separability, or separability is a sub-set of control?]*** *I can certainly have control over things that aren't separable. I can certainly have control over things that are legal right. I would refer to separability and legal contract as implementing devices, or implementing conventions that we use to apply the notion of control.* ***[This means that the notion of control is a set from which separability and legal rights are subsets].*** *Almost everything that we recognise in financial statements has the feature of separability or legal rights, but I don't think… I think that's an implementing convention rather than a fundamental principle.*
	UK ASB member	***[Separabilty here is an important criterion for measurement].*** *It is. It has to be separable, but you understand that it would be possible, if you measure at the fleet level, to measure at the individual level. In that case, if the way the entity does business suggests that you measure at a higher level, you can. My lower limit would be that it has got to be separable as a minimum requirement. I would aggregate, but I wouldn't aggregate to the level of the whole business, unless I was selling the business. It wouldn't be a going concern. I'd be saying the value of this business is what I can sell it for.*
Level of aggregation	***UK ASB member***	***[What's your view on the necessity, or otherwise, of separately recognising, or separately measuring an asset rather than a bundle of assets?]*** *All assets are bundles. The question is to assess at what level we aggregate. Do we do it at the machine level? A spare parts dealer would do it at the parts level. Some people would do it at the machine level. Some people would do it at the factory level. If you've a lot of machines installed in a factory, you'd normally regard that plant as being what you'd sell. You wouldn't pull out the machines that are installed.*
	IASB research fellow	***[One of the characteristics that characterises an asset is it should be separable. Separabilty would be very important in intangible assets].*** *I don't think it's possible to define all assets as separable from each other in a meaningful way, such that they will add up to the value of the business. I don't think you can do that. I don't think you can take the value of the business and disaggregate it to individual values for separable assets. I'm not sure if that answers you question or not.* ***[But this will be in conflict of your words when you told me it's a bundle of***

		assets]. *It's not. If you had a series of individual financial assets that could all be bought and sold separately, if you add them all together…* ***[In this case we're going to ignore many other assets that should be measured and recorded].*** *I think it's not possible to have separability that aggregates to the value of the business. I think it's possible to have a National Express balance sheet that has got coaches and whatever else, but there will be a gap between the value of those things and the value of the business.* ***[Great. This means we don't have to aggregate those assets to be equal to the value of the business].*** *No. I don't think you can do that.* ***[This means that… I don't want it to be separated from the value of the business. We don't have to record National Express based on a higher level of aggregation, because if we aggregate them on a higher level of aggregation this means we are going to ignore some assets.]*** *Yes. I agree with that.* ***[This is the notion of seperability].*** *But think about the coach is itself an aggregated bundle of assets.****[Yes].*** *If you were to take the seats of the coach and value them separately…* ***[Of course not].*** *That's the value of assets in itself.* ***[I know. This is why UK ASB member clarified in his interview; he told me that it should depend on the level of aggregation. For example, for National Express the level of aggregation here may be a route of coaches].*** *Possibly.* ***[In a small car garage it may be a small chair… These are his parts and his assets separately, so it depends on the level of aggregation and the type of business use. So you are in favour of separability].*** *It depends what you mean by in favour.* ***[This means you are in favour that you have to separate assets, in order to know the value of the business accurately and to inform users by all types of information].*** *I don't agree with this.*
	Accounting expert (3)	***[UK ASB member told me the separation here depends on the… The separability concept depends on the type of industry and the type of activity you are holding].*** *Absolutely. The whole point is that if you can separate something…Of course, you could say that could take out the seats, but it makes no sense. The most economic way to transfer the assets is by selling the coach, as such. You don't take out the parts. If it makes sense to sell the bus in parts, I would separate the parts.* ***[If you are working in a garage, a repair industry, we can sell the seats separately].*** *I'm saying you have to look at each part of any asset and determine whether it makes economic sense to separate it. If it makes sense to separate it then you do that, but you have to keep in mind the whole underlying idea is it's a going concern. Even if it makes sense to sell the seat separately, as long as my whole business relies*

		on having these buses available, I wouldn't sell the seats. Maybe it makes no sense to separate them for valuation purposes. **[So you agree with the concept of separability within the circumstances of activity].** *Yes*
Asset bundle	***IASB member (5)***	*I think you can make an account a lot harder than it needs to be. It gets confused with a lot of other issues.* ***[But intangibles are very important].*** *They're absolutely critical for intangibles. What happens is we always recognise a unit of account….. The thing I think is key, and is especially important for your analysis, I think you have to answer unit of account before you answer definition.* ***[Whether you are going to define the item as an asset, or…]****You have to describe what it is you're applying the definition to.* ***[What's your item.]*** *Before you can apply the definition…****[I would just like to put features for this phase, like the features for the measurable asset. When an asset is measurable, it should satisfy the following features. These features, I'm just putting them in the form of questions because I just deduce them, or induce them from the literature. For example, satisfying whether we can avoid asset bundles, or we don't avoid them].*** *We don't avoid them. We always do it. Sometimes we pretend that we're not. We say that a bus is not a bundle of assets. Of course it's a bundle of assets. It's just that it's more relevant and precision useful to describe it as a bus….* ***[So you don't agree with 'avoid asset bundles.']*** *No. I don't think that's an initial recognition issue.*
	UK ASB member	*The appropriate question is how big should the bundles be? Should I bundle the car parts into a car, should I bundle the car into a fleet of cars… That depends on the sort of business, how big it is, whether it operates on a fleet basis or an individual car basis, whether it's a car business or a car spares business, you know, all those things will determine the level of aggregations. I think all assets are aggregations, to some extent. What I don't like the idea of, which I think is an idea behind fair value, is the idea the accounts should value the business as a whole. I don't think the accounts are for that. My measurement objective would be to value parts of the business, show what assets the business has, but at the end of that there would be a gap. The gap would be the goodwill of the business. I don't think the accountant's job is to value goodwill in the purest sense. That's the job of the investor and the analyst. They reach their subjective evaluation of future cash flows, including all the things I haven't recognised and all the things that haven't happened yet. If I'm valuing an oil company now, I'd probably disagree with you because you have a different view of the way the oil market is going to go in the future. Those*

		are legitimate differences that analysts and investors can have, but aren't appropriate for appearing in the accounts. We don't want auditors signing off on these differences of opinion. They're not reliable. They're subjective. They shouldn't be recognised.
	IASB research fellow	*It depends what you mean by wherever possible. I think it is preferable to value independently, but sometimes not meaningful. So it might be possible but not meaningful. You might have two bits of equipment that form a set, and either bit independently does have a market value but it's very small, but the two bits together have a big market value, in which case, do I agree? No, because you can measure them individually.* ***[Do I think you should measure them individually?]*** *No. You should measure them as a bundle.* ***[It depends on level of aggregation].*** *It depends on what level of aggregation provides meaningful information that's not unreliable.*
	Accounting expert (3)	***[What is your views on the necessity or otherwise of separately recognising and separately measuring an asset rather than a bundle of assets?]*** *That is a question that's interesting because FASB have said you need to recognise each asset separately, and I think the answer to that question is quite complicated because the question is… You jump over FASB. The question is what is the financial report to be used to? What is the purpose of the financial report? Is the purpose to give the user some idea of what he can realise of economic values associated with each item in the financial report? In that case, I think you need to separate everything. You cannot bundle the assets. If the whole point is the going concern concept, the idea is you should give some information about what is the value of the going concern concept, I think you might be allowed to bundle assets* ***[From your point of view, what are the users needs in practical life?]*** *Going concern.*
	Accounting expert (4)	*I would agree with that. 12B. Yes, I would agree that assets should be measured individually. There's a concept of fundable assets, where they are identical and can be grouped together, but for certain transactions like micro heading and things like this, it's not good to bundle things together. For (inaudible) accounting, I would agree that you need to match individual transactions, not bundle them together, which has been a big debate with the banks over IAS39…[* ***Do you agree with this assertion that we should aggregate assets based on the type of activity?]*** *There could be some items you don't want to add together. An example of derivatives would be that I would prefer not to add them together, but you could say that a bank could add them together because they're*

		taking a macro view of risk. I think IASB, with their non-current asset rules, separate out assets, so a roof on a building, if it's new, is depreciated differently to the walls of the building. The ISB seems to want quite a ridiculous amount of detail in terms of recognition of individual assets. With the non-current assets, you even get down to roofs and walls being depreciated differently, if you read the regulations. I think, generally, we want more accuracy, where possible. Today, with information systems, and coding things, it's quite easy to identify individual assets, I would have thought. I wouldn't agree that we need to bundle them together. I'd be more into the details on that, I think.
Pre-measurement phase	***UK ASB member***	***[If I'm going to have a diagram for the recognition process, from your point of view, starting with the meeting of the definition, and ending by measurement, in between there should be in intermediate phase. Can you just go to question twelve? In a pre-measurement phase, I feel it's a very important phase]*** *That's where recognition is important*
	IASB research fellow	***[If our aim is to have a recognition process, and they would like to have it in a diagram, okay, when I have an item that goes into a box which is the definition of an asset, this box, before the arrow goes into the other box, which is the measurement phase, the arrow must move along an intermediary phase, which I call a pre-measurement phase. Before we go into measurement, I don't want to know how it will be measured. Do you agree with me that we must have a pre-measurement phase?]*** *Yes, but you can't ignore the next step because you need to know whether you can measure it.*
	Accounting expert (3)	***[I feel that before measuring an asset, we should use the relevant base. In a pre-measurement phase, I need some criteria to be settled before I go into the measurement phase].*** *Yes.****[You agree with this stage].*** *Yes. If I was on a conceptual framework… What you're talking about here is you need to determine what the objective of the financial reporting it, what the qualitative characteristics are, and so on, and so therefore I agree. There are certain issues you have to deal with before you go to measurement.* ***[These issues will be in the recognition, since you agree we should have three separate phases in recognising an asset].*** *You start at the top, then you go down, then you get to recognition, and then you get to measurement. I agree with that.*
	Accounting expert	*In the pre-measurement phase…****[In this phase or it is the intersecting point between the recognition and the***

	(4)	***measurement]*** *I understand. I think that's a good phrase*
Measurable asset	***AcSB member (1)***	*I guess a 'measurable asset' is the characteristic of whether the asset is capable of being measured, whereas 'asset measurement' seems to me to be the process of doing the measurement*
	AcSB member (2)	*Asset measurement is what value and what means you do to put a value on an asset. I guess a measurable asset is one that's capable of measurement. A measurable asset might be measurable in only one way, whereas asset measurement… I'm not sure. I just think they're mirrors.*
	IASB member (1)	***[And we can recognize it in the financial statements if it meets the definition and the measurement]*** *Well, that depends on what you meant when they said measure it reliably. If assigning a number to it is a reliable measure, then…**[Do you mean that recognition should be to meet the definition and to be measurable?]** I do not understand what you mean by 'meets'… **[To meet the definition]** It has to meet the definition, and it has to be measurable or I wouldn't know what to do with it!*
	IASB member (2)	*If you do not recognise, you would not put it in the financial statements that what recognise means, so you cannot …. If you can measure it, you still have to put it in the financial statements. That's what 'recognise' means and just measuring it does not mean you have recognised it. **[Yes, but it comes after meeting definition as you said at the beginning]** No! I am saying, the act of measuring is different from the act of putting it in the financial statements. I am not saying that there should be any more criteria but, if we can measure assets, then simultaneously we can identify it and can recognise it. It is not past tense; just measuring it doesn't mean you have already recognised it.*
Relevant for decision usefulness	***IASB member (2)***	*"I think if something meets this definition it would be a candidate to be included in the financial statements. If it is an asset of the entity then the question is does it meet the qualitative charactertics? Is it relevant? Well, if it is an asset it is relevant to be an asset…the user should know that. So, it needs to meet the relevance test and then the other test is faithful representation"*
	IASB member (5)	***[You just told me that you think that the qualitative characteristics are or may be considered to be recognition criteria].*** *I think they might. I think they might operate as our recognition criteria. We would say that, given the opportunity to recognise something as an asset, given the fact that it meets a definition, then we would ask*

		ourselves, well, having said that, does recognising it meet the decision usefulness, and all the other qualitative characteristics, and the objectives. That might function as a recognition. ***[As an intermediate phase between meeting the definition and the measurement phase].*** *Right…*
	UK ASB member	*I think you need a definition first of what an asset is, then you need a criterion that says what level of certainty knowledge am I going to demand before I recognise it, and also at the moment the other measurement criterion is how reliably can I measure it?................ It's value relevant information that is disclosed but not part of the accounts. The accounts double entry system has to have reasonably reliable information in it. That means you are reasonably certain that the asset or liability exists now it is not just a prospect and secondly the measurement of it is reasonably reliable so the accounts themselves do have in numbers that the user can rely on. ………….They* **[assets]** *are there because they would affect an analyst's assessment of the business, and therefore their valuation, so they're value relevant*
	Accounting expert (3)	***[Returning back to question two, it says that one board member argued that the asset definition with the qualitative characteristics relevance and representation of faithfulness is enough. I don't think we need additional recognition criteria. This is from their transcripts].*** *I disagree with that. That may work in a hypothetical, perfect world, but it does not work in… Everybody has got to remember that financial reports are to be used in an economic environment, the professional world, and you cannot take the accounting standards out of the context in which they are supposed to perform a function. We do need to have additional recognition criteria, for instance, reliability, as I've said. In certain circumstances we need to have some additional recognition criteria as to how…for instance if I obtain an asset by conducting a service, when am I to recognise that asset? In traditional recognition questions, it's… The only help I have in deciding when to recognise that revenue, for instance, is the asset definition. I think I'm not going to be well equipped. I need more.*
	Accounting expert (4)	*There's the argument about do we have an asset or not. That's our first decision. We could have lots of assets that don't get onto the balance sheet. It's very often the directors say 'Our greatest asset is our workforce', and we thank our work force for their continuous work for us. The workforce meets a number of criteria, I would have thought. Their knowledge, experience and training represent a huge asset, which is currently off balance sheet. It*

		does bring us benefit in the future. You could argue that we have invested training, and time in the past, and they have some cost, but it doesn't get into the balance sheet because it's too unreliable. I think the more recognition criteria we have, the better. The more advice we have, the better. I think…. **[So do you agree that we should have recognition criteria to support the asset definition].** *Yes. There's one thing to say we've got an asset and another thing to recognise it. We all recognise that the workforce is an asset. It's highly relevant and we see it in the notes to the accounts. You could work out an economic value for all your workforce, based on the amount of re-training you'd have to do to replace them. There's human asset accounting which has been developed to try and value the workforce. It can be done, but it doesn't get into the balance sheet because we don't have slavery and we don't own these people. They can leave if they want. It's not reliable to put them in the balance sheet because the asset may not last for the next… You do see it in football club accounts. If you look at the accounts for Manchester United, the players that they've purchased, the costs for their contracts in the balance sheet. They depreciate or amortise footballers contracts in line with Fifa guidance about age of players at the end of their contracts. Human resource accounting can occur with golden hellos you get from CEOs and in particular instances like football clubs, but not in the vast majority of companies where you have a workforce. What we're saying is you can have an asset that meet the definition of an asset, that meets the qualitative characteristics, is relevant, and represents what it is, but still fails to meet separate recognition criteria because separate recognition criteria they will be based on reliable measurement, and some kind of prudence or neutrality, and some kind of reliability test. That's where you say the workforce is a big asset, but unfortunately we do not see it on the balance sheet. ……. The confusion is around the terms 'recognition' and 'measurement.' Normally, when you talk about recognition, you talk about measurement. It's whether you can de-couple those two concepts.* ***[That's why I tried my best to differentiate between both of them. Recognition includes a part of the measurement if there are two sets may be interesting in one point, but they are completely two different sets].*** *Yes! but most people will add together recognition and measurement. In my example of the workforce, I acknowledged that it is an asset, but I'm not able to measure it reliably and therefore it fails my recognition test*
Reliability vs.	***AcSB member (1)***	*personally, I think you probably need measurement reliability criterion of some kind, as well, because we are*

represenatational faithfulness		*going to hit examples where we have got something that meets the definition of an asset, and we do not know how to attribute a number to it, and we can't put staff on the balance sheet that do not have numbers. It doesn't add up. So that's why, personally, we are going to have circumstances where there are things that we would not be able to put on the balance sheet. Because of that, we will have to deal with them in some other way………. Assuming that there is a reliable measurement huddle, you are going to say 'I do not know what number to out on there? And then you start to say how else can I faithfully represent that? So if I can not get good enough number for the balance sheet, what is the disclosure that I am going to give about it? ……….* ***[From your point of view what do you prefer – reliable measurement or representational faithful measurement?]*** *That's a good question. That's something we have to deal with as we go forward. I think what we would probably want to do, and this is just me talking, is talk about faithful representation, so we are going to talk about the ability to faithfully represent these things in numbers, and if we incapable of faithfully representing in numbers we have to fall back on disclosure or something…….*
	IASB member (2)	*A measure of reliability is faithful representation…….. So, we have to be able to faithfully represent it and it will go through all of the qualitative characteristics, then, I would say, why not recognise it?...* ***[Yeah! This means that after you define an asset and before you measuring it, you need to make a test even for the qualitative charactertics]*** *Everything that goes into the financial reporting should have the qualitative characteristics……. 'Relevance'...I think if an entity has an asset it's relevant. [Mary reads from the new framework booklet published about the objectives and the qualitative charactertics] 'Representational faithfulness', you have to find a depiction that is complete, neutral, free from material error, reflective, depictive, economic substance of the underlined transaction, event or circumstances."*
	IASB member (1)	***[And we can recognize it in the financial statements if it meets the definition and the measurement]*** *Well, that depends on what you meant when they said measure it reliably. If assigning a number to it is a reliable measure, then…****[Do you mean that recognition should be to meet the definition and to be measurable?]****I do not understand what you mean by 'meets'…* ***[To meet the definition]*** *It has to meet the definition, and it has to be measurable or I wouldn't know what to do with it*

	IASB member (4)	***[So do you agree with reliable measurement or representational faithfulness?]*** *I think you have got to be able to faithfully represent the economic resource that you have the present 'right' to. If you cannot do that, if it's not possible because you don't have the measurement tools to do that, the information would be potentially misleading if you would represent it. It is still important to have the qualitative characteristic. That plays an essential role in the determination of the quality of information that could be provided to users….we must be neutral, so let's have a set of recognition criteria that treat assets and liabilities equally. They probably reduce the incidence of recognition of liabilities and raise the incidence of recognition of assets, because assets weren't being recognized until they are certain, liabilities will be recognized when there is a possibility"…….*
	IASB member (5)	*The difficulty is that it runs smack into the wall of the fact that we don't recognise things that are relevant, that we could come up with a faithful representation… So there must be a reason why not. We've never articulated a very good reason why not. Other of our constituents are scared to death that we might, because if we recognise it then they'd be held responsible for it. So I think, as I say, there's a tension there that if… I guess it's a sort of a dissonance between if you say you don't need a recognition criteria – that suggests that anything that meets the definition, and meets the qualitative characteristics – should be in the balance sheet. Well, it's not. A lot of people say it shouldn't be. That suggests that you need some kind of a decision rule about recognition. Now the existing decision rules that we have about recognition, both in our framework and in the FASB framework, aren't any good. The FASB one says it meets the definition and it's measurable. Well, there are lots of things that meet the definition, are measurable, and we don't recognise them. I think… I don't know if we need a recognition criteria, but, unless we're going to wholesale recognise everything that meets the definition, then we need to explain why we're not going to. I'm afraid that the real world trumps the intellectual and we're going to need a recognition criteria. I hate it, but I'm afraid it's true….. The qualitative characteristics, I think perhaps are recognition criteria*
	UK ASB member	***[So you're in favour, for example, we can have a method that it can measure reasonable uncertainty in the measurement method]*** *Yes. I think it depends… In terms of the measurement properties of the number you're getting, it depends very much on reliability to me. Reliability is something that has been cut out of the framework*

		now. It's called representational faithfulness. As an advocate of fair value, I'd say the only thing that's representationally faithful is the market price…….. Measurement is one of the recognition criteria at the moment. If you can't measure it reliably, you don't recognise it. It isn't true that everything you think you can measure, you'd recognise, because it may not be reliably measurable…. ***[So one of the criterions we have to take into consideration when we consider an asset to be measured is that an asset is measurable before the measurement phase].*** *Measured reliably. You can look at a business without any knowledge and guess.* ***[We don't mean we'll put it in simultaneous or consequent phase. They mean that when an asset has finished its measurement phase, it should already have passed through the other two phases].*** *It should have passed through them. If the other two have been gone through first, I have no quarrel with the analysis. First of all, you decide whether there's an asset there, you then decide whether there's something there worth looking at, and then you decide whether it actually is there with sufficient certainty to try and measure it, and then you decide whether you can measure it reliably. If it passes the test, you recognise it and measure it.* ***[The point of uncertainty is very important here].*** *It is.*
	Accounting expert (3)	*"They want to get rid of reliability because it's a problem with respect to fair value accounting because… In the discussion paper that came in 2006, they said it was not the change of reliability, it was just a change of words. Faithful representation is exactly the same as reliability. A lot of the response letters criticised because there is a big difference between what they call representation of faithfulness and reliability. What they have done now is taken out verifiability as part of the faithful representation. When they take that out, obviously, verifiability is an important aspect of reliability. If you take out verifiability, faithful representation is clearly something else than faithful representation. If you ask an analyst if he would like to have financial reports that cannot be verified, what kind of answer do you think you're going to get? Why do you think auditors are requested to give some kind of confirmation in Europe, US, or wherever? It's because the users want to have some verification. In my view, you definitely need to have reliability. If faithful representation is a better word, which it is not, if they think so then that's fine, but do not change the content. Also, include it as a recognition criterion because we cannot have total unreliable information in financial reports if it's going to be useful"*

	IASB research fellow	***So you mean that the definition will be all-inclusive, including the definition and including also the criteria to recognise assets in financial statements.*** *The way I would see it is there should be a framework that defines in principle what an asset should be, but no presumption that is applied universally. The framework is not a standard. It's 'This is what an asset is.' What you include in the financial statements should meet a test of reliability of measurement, and the default of not including something which meets the definition of an asset, but can't be measured reliably, should still be there*
Market-specific measurement	***AcSB member (1)***	*"Let us say reliable measurement, the question would be can the entity reliably measure it, or can it reliably measured it in the market? There I would very clearly say it's a question of the market. Is it capable to be reliably measurable? So it depends on the entity. Just because the entity says I do not have the expertise…* ***[This means that the entity can depend on the market]*** *It should be linked to the ability of the market. We see that in the way, I guess, we wrote the accounting standards. We make a judgment. We say for certain things we think there is a market and they're suitable to recognize. If you look at IAS 38 for intangible assets, you can see things like brands and the like that they say no we would not allow to recognize because there is no enough market specific measurement. So the entity can calculate, so that's not good enough. I'm in the market specific camp."*
	IASB member (3)	*"…in many cases most of our constituents use an entity amount rather than market-amounts. It really depends on what you want to show. The value of a building that is being used should reflect a market-based value."*
	IASB member (2)	*…Now to recognise it in the financial statements what number do I use?…You want to know how the market figures it"*
	IASB member (1)	*"The marketplace trades these things for a thousand every day, and we can observe that. We get over here, and it happens to be mine. This says that I want to measure it as $1100 because when I use it, I use it better than you do. That's not an asset issue. That's a measurement issue."*
	IASB member (4)	*So, yes, I think that the market perspective is important in determining whether or not you have something of value…If I couldn't do that because there is no market for this – it's a unique asset or whatever – I could still estimate a value by looking at what a market participant would pay if it were a transferable item"*
	UK ASB member	*We don't stick them in the accounts because we think there are some things that, because of the uncertainty*

		surrounding them, whether they exist, because of the difficulty of measuring them, for those sorts of reasons we don't think they're precise or reliable enough to put in the accounts. Intangible assets that are internally generated typically fall into that category, some that do have a market value and we do not include in the accounts. All sorts of intangible assets exist
Measurement separability	***IASB member (2)***	*"It is not past tense. Just measuring it does not mean you have already recognised it"*
	IASB member (1)	*"I just built this plant. I hired you guys to build me a plant. T turned the key, opened the door and it works. I paid a billion dollars for it. I guess we have measurement separability. It must be. I do because I got the plant now and I wrote you a cheque for a billion."*
	IASB member (4)	*"I disagree, absolutely, because I think it implies that unless something is separable and, by virtue of being separable, measurable, then you do not have an asset."*
	IASB member (5)	***[at the point in which the asset already meets the definition and the qualitative charactertics, at this point we can say that the asset is separable measurement or measurement separability].*** *They're trying to describe a sort of a state of grace; I guess, you know, the state at which you've satisfied all the things you need to do to get to a balance sheet.* ***[It's still before measuring phase].*** *But you know that you can measure it.* ***[I know that this item will satisfy the following features, as I told you. For example…]*** *So they have attempted to describe this phase.* ***[Yes, which is the pre-measurement phase].*** *That's fine.*
	UK ASB member	***[Napier and Power introduced the term 'measurement separability,' which collapses the three stages identification, recognition, and measurement in one stage, on the basis that if one can measure an asset, one has simultaneously identified and recognised it. In what way would you agree or disagree with this?]*** *The statement is obviously true. The issue is in what sequence is, it sensible to do those things. If I'm doing a set of accounts for a business, do I just look into the air and say 'What can I measure?' and write it all down, or do I say 'Well, here's a business, what has the business done, what are the transactions and events I can identify, what are the consequences that I can recognise.' That seems to be a logical and practical way to proceed. If I proceed that way, I may find things that I can measure that I don't want to put in the accounts. My accounts will contain a staggering number of things if everything I can measure goes in, or think I can measure. The trouble is*

		there's no reliability here. I've not read Napier and Power; although I know them both and they're admirable people. Identification, recognition, and measurement in one stage, if the stage is identification, recognition, measurement, in very short intervals, I'm quite happy about that. ***[They want to introduce the terms that what we measure is a consequence of what we recognise and what we identify].*** *Measurement is one of the recognition criteria at the moment. If you can't measure it reliably, you don't recognise it. It isn't true that everything you think you can measure, you'd recognise, because it may not be reliably measurable.*
	IASB research fellow	***[One of the characteristics that characterises an asset is it should be separable. Separabilty would be very important in intangible assets].*** *I don't think it's possible to define all assets as separable from each other in a meaningful way, such that they will add up to the value of the business. I don't think you can do that. I don't think you can take the value of the business and disaggregate it to individual values for separable assets. I'm not sure if that answers you question or not.* ***[But this will be in conflict of your words when you told me it's a bundle of assets].*** *It's not. If you had a series of individual financial assets that could all be bought and sold separately, if you add them all together…* ***[In this case we're going to ignore many other assets that should be measured and recorded].*** *I think it's not possible to have separability that aggregates to the value of the business. I think it's possible to have a National Express balance sheet that has got coaches and whatever else, but there will be a gap between the value of those things and the value of the business.* ***[Great. This means we don't have to aggregate those assets to be equal to the value of the business].*** *No. I don't think you can do that.* ***[This means that… I don't want it to be separated from the value of the business. We don't have to record National Express based on a higher level of aggregation, because if we aggregate them on a higher level of aggregation this means we are going to ignore some assets].*** *Yes. I agree with that.* ***[This is the notion of seperability].*** *But think about the coach is itself an aggregated bundle of assets.* ***[Yes].*** *If you were to take the seats of the coach and value them separately…* ***[Of course not].*** *That's the value of assets in itself.* ***[I know. This is why UK ASB member clarified in his interview; he told me that it should depend on the level of aggregation. For example, for National Express the level of aggregation here may be a route of coaches].*** *Possibly.* ***[In a small car garage it may be a small chair… These are his parts and his assets separately, so it***

		depends on the level of aggregation and the type of business use. So you are in favour of separability.] *It depends what you mean by in favour.* ***[This means you are in favour that you have to separate assets, in order to know the value of the business accurately and to inform users by all types of information].*** *I don't agree with this.*
	Accounting expert (4)	*Measurable separability, which collapses the three stages – identification, recognition, and measurement – into one stage, on the basis that one can measure an asset, one has simultaneously identified and recognised it? I don't think so. Going back to my point about the workforce, you can identify it but you can't measure it. You know it's an asset of the business… That's a good example. Compare home grown players with purchase players because then you don't have comparability in terms of the rules. This is very unfair. It discriminates against organic growth, which is a negative economic consequence of the accounting rules. It actually encourages takeovers and aggressive behaviour; whereas I think we should be encouraging organic growth. I disagree with Chris Napier and Michael Power in question eleven. Because the concept of an asset is much wider than measurement. Have you come across the concept of psychic income and that sort of stuff from the 1920s? Fisher and all that stuff….. You could talk about assets in a way which still has an impact but is not measured. Non-financial indicators are very important, and the balance scorecard is very important to businesses now. You could have staff turnover as a key performance indicator that would be shown with some significance in your annual report. That's part of the operating financial review and the balance scorecard approach. That would have a big impact but wouldn't meet Chris Napier and Michael Power's approach of recognition, but you've still got an asset. You can have a key performance indicator or a metric about that asset, such as staff turnover. It will still have a big impact on the users because it gets into the annual report but it's not on the balance sheet. I'm not sure about it doesn't exist if you can't measure it. That seems a bit sad. There are some things that you know you can't measure them, and they are therefore very important … The churches have accounts, but they don't attach a value to their historic relics because they are non-measurable because they are unique relics and are not going to be sold. Churches don't have these relics in their accounts, but they do exist. But they are measurable.*

Asset measurement	*AcSB member (1)*	*"I think everything evolves from that. So, once you decide what are the things you have got, then if you are going to build a financial reporting model you've got to decide which of those things you have got that you are going to put in the financial statements … that's recognition, of course. Actually, am I going to recognize and record in the books, because the financial reporting or prime financial statements are about putting numbers on things? You've got to put some kind measurement on it. You have to decide what's the monetary number you are to put on something, so that builds to the measurement"*
	IASB research fellow	***[So you mean that the definition will be all-inclusive, including the definition and including also the criteria to recognize assets in financial statements].*** *The way I would see it is there should be a framework that defines in principle what an asset should be, but no presumption that is applied universally. The framework is not a standard. It's 'This is what an asset is.' What you include in the financial statements should meet a test of reliability of measurement, and the default of not including something which meets the definition of an asset, but can't be measured reliably, should still be there.*
Nominal measurement vs. real measurement scale	***AcSB member (2)***	*Conceptually, I'd like to start off with nominal – ordinal slot in between and I'm not sure we've worked with nominal a little more carefully and at least understood what an asset is. [This means nominal and real are of concern when we put the definition of an asset, or to put it in recognition]. I suppose you couldn't actually measure… You could have a list of nominal assets, with some description of them. But what we can do in the Canadian conceptual framework which is not a sort of other contradictions if it supposedly says that if all we're trying to do is trying to put information for investors. What happens then is there's a blind take that if you follow these assets and liabilities rules then you'll get the best information to investors. Nobody has ever shown that following these assets and liabilities rules get the best information for investors, but that's where it starts. It's all about information…..For example, if you're doing financial [capital maintenance], and you really wanted to go back to Hicks' notion of well offness, then ought you not to be doing it in the sense of a person's welfare, and ought you not to be inflation adjusting, almost for sure, before you can declare income? I have to have at least the purchasing power before. Again, if you came back with…It comes back to thinking whose welloffness. Why should I measure nominal dollars? [Which means we should have a good measurement scale]. Yes. Also, it*

		depends what you want to do it for. Suppose you want to do it for taxation purposes, redistribution of wealth… I think if you do it for taxation, it almost immediately drives you to a purchasing power version of financial capital meaning, if you want it to be fair. If I invested twenty years ago, and you invested yesterday, then if we do it in nominal dollars, the measurement of our change in welloffness is horribly skewed. Yours is perfect. It's only one day of inflation out. Mine is just… I may actually be deep in the red. Those issues just get glossed over. It would be interesting if we addressed them. I think that fact that we always claim information allows us to get away from all these fundamental income measurement things, even though, when we go to do it, we sort of go to this hard economic facts of assets and liabilities, and I get you the best income measurement. But, we're not really doing income measurement, we're doing information. I find that sort of weird circle is not a circle. It just doesn't join up. I find that a little bit hard in the way it guides us.
Observable measurement	*IASB member (5)*	*"In other words, I should have a hierarchy. Remember I said a hierarchy. A hierarchy doesn't tell me I can't use other methods like discounted cash flows. To estimate fair value, I do that all the time, especially for liabilities. What's the observable balance of an asset removal obligation? There is none. I have to have some other method. But what I'm doing, I think, is always trying to approximate that notion of fair value and initial recognition, that's in my mind"*
	UK ASB member	*Personally, I'm not against valuing in terms of future cash flows, looking at present value, because that's what we do with impairment tests, for instance. I think there are properties of measurement that mean that if I felt that there was equal value in having a market price and an estimate, I'd probably go for the market price because of reliability.* ***[So you're in favour, for example, we can have a method that it can measure reasonable uncertainty in the measurement method].*** *Yes. I think it depends… In terms of the measurement properties of the number you're getting, it depends very much on reliability to me. Reliability is something that has been cut out of the framework now. It's called representational faithfulness. As an advocate of fair value, I'd say the only thing that's representationally faithful is the market price*
	IASB research fellow	*I think it's a grey scale. I don't think you can really say that you can have a market place for a financial instrument. The market price is itself what the market thinks the future cash flows will be. It's more observable*

		than your own estimate of what the future cash flows will be, and there's a grey scale between something traded on a market and something that you're valuing yourself. I think it's not an either/or.
	Accounting expert (3)	*It depends on what is the measurement basis. If the measurement basis is fair value, I believe it should be based on observable input and observable outputs. There are a huge number of different measurement attributes. It could be that… To answer this question on a general basis doesn't really make sense. If we talk about fair value, I believe that we need to have some observable…When I said I agree, I meant in reference to fair value.* **[So this means it depends also on the measurement we are going to use].** *Yes*
	Accounting expert (4)	*That's about measurement. You're making a difference between the words observable and predictive, but if we're into subsequent measurement it's all predictive really. You have a number of hypothetical events, don't you? You could hypothetically sell you asset and then have an exit price, you could hypothetically buy it again and you'd have a net replacement cost, or you could use it and then you'd have a present value. You are looking forward and then you have discounted cash flows. They're all predictive. I think what I was getting at is the Americans don't like present value and the British, Baxter, add value to the business, which is a much better rule than the fair value rules. I'd follow Baxter and the value to the business because it… that was written in the 1970s when we had high inflation and current cost accounts. Where there were assets that you wouldn't replace, that nobody would want to buy, but had a high economic value, value to the business gave those assets a value. A typical example is a railway tunnel. Nobody wants to buy a railway tunnel, it would cost you a fortune to remake it, and, the value for the business, it would come in at its present value. That is a consistent measure. It's value to the business that's being used as the measure, but within that measure there are three discrete other measurements. It's similar to the law of cost and net realisable value that we see with inventories. People are quite happy with that. When you put value to the business to the Americans, they can't stand it because they think it's too subjective and people can put discount rates in and things. Value to the business is a prudent framework, anyway. It's the law of the replacement cost to x, where x is the higher of the sales value, net realisable value, and the present value. I'm a value to the business person.* **[I think this would be a debate between the British accountants and the American accountants].** *I know, it is a big debate, I think. They don't*

		like present value.
A measurement method should faithfully represent current economic phenomenon	*IASB member (5)*	*All measurements are prospective, in that they represent the current value that someone is willing to place on future benefits. It's just not useful to get into a game of saying, well, do I use prospective or observable? Because, if I had an observable price, I'd use it. If I don't, I do something else to try to approximate it.*
	UK ASB member	*The recognition should be of the past and present, not the future. The future may have a bearing on present values. If the future prospects look bad, maybe it's sensible to write it down in a prudential way. That's against the IASB's revision of the framework, though…..*
	IASB research fellow	*I don't know that current means anything in that context. I think current is a representation of the future. Past is separate because past is whatever value is attached to something in the past. A current value is what we currently think it will be worth, given our expectation of the future… We can say with the greater or less certainty whether our current valuation is reliable or not. That's what it is trying to do.* **[Are you in favour of some sort of reasonable uncertainty in measurement?]** *I think it's unavoidable.*
	Accounting expert (3)	*I think IASB is right when they say that fair value, which is what they referred to as an exit value, I think it can…If you have an equity instrument, for instance, a stock or share, then you can just go to the stock exchange, observe the price, and that price is the current price, and the price is based on what the market expects of future cash flows from that company. When you ask me to separate the current pricing from the future, it makes no sense because the current price reflects the future. It also reflects part of the history. It's nonsense. That question D is nonsense. I understand why you're asking because it reflects the current discussion of the board members, but it gets us nowhere*
	Accounting expert (4)	*Asset measurement should attempt to faithfully represent current economic phenomena, the key word being current, not past or future. It's similar to what we've just been talking about. If we don't have a liquid market then we don't have a current value, and therefore we might have to use the past or the future. Have you seen the front page of Accountancy Age this week? It's saying don't kill fair value because the SEC wants to drop the rules on fair value. It's a very contemporary interest.*

One measurement basis vs. multiple measurement bases	*IASB member (5)*	*An initial measurement, if we could ever decide exactly what fair value means, then we should only have one measurement basis on initial recognition. I don't think that you'd get much disagreement with that*
	UK ASB member	*I think there should be an objective. I quite like the idea of 'value to the business', which does actually give you the choice of measurement bases. One asset doesn't necessarily have a single basis, but you select the basis according to the circumstances of the asset. That's very traditional, in some ways. Under the old historical cost rules, we used to often do historical cost, or market value, whichever is the lower. Under the impairment rules, under the FASB & IASB rules in business combination, those rules say you measure the asset initially at fair value but subsequently you asses it for impairment. If the present value, or value in use, is less than the original fair value, you right the asset down. In a way, that's not a single measurement basis. You're combining different bases. It's appropriate to the circumstances of the asset. I actually quite like impairment tests, but they don't seem to fit in very well with the IASB's new framework. The idea of impairment is an asymmetric prudence sort of idea. We do use it at the moment, so to that extent I do think that one measurement basis is wrong. It should be an appropriate measurement basis. And the choice of measurement basis shouldn't be done at random; it should be done according to some objective. My objective would be along on line with a value to the business objective, showing what that asset is worth to that business in its circumstances.*
	Accounting expert (3)	*I'm saying that I do not think we can have one measurement basis. I think we need a mixed measurement basis. It depends on circumstances. Under certain circumstances it may be appropriate to use fair value, defined as an exit value, as the measurement basis, then reliable prices, and we're talking about business, which is typical trading business. Then I said, with respect to the discussion, whether pricing should be current, or future, or past related, to me that makes no sense because if we're talking about fair value then we're talking about the current value, but the current value reflects expectations about the future. I think this is just rhetorical.*
Conservatism and neutrality	*IASB member (4)*	*you had a lack of neutrality in accounting. Liability would not tend to be Recognised in circumstances, but assets might not, so assets should have to meet a higher huddle. So some of us said, when we started developing the CF, no, that is wrong; we must be neutral, so let's have a set of recognition criteria that treat assets and liabilities equally. They probably reduce the incidence of recognition of liabilities and raise the incidence of*

		recognition of assets, because assets weren't being recognised until they are certain, liabilities will be recognised when there is a possibility. So that is why we felt we are comfortable in getting better accounting, but now we say 'hang on, you should recognise these assets and liabilities from day one.
	IASB member (5)	*You ought to have the same answer for assets with uncertain settlement, as you do with liabilities that have uncertain payout.*
	UK ASB member	***[The board member meant that since we delete the conservatism, the reason for deleting the conservatism is to treat assets the same as treating the liability]*** *I think that's just wrong. My example of the own credit risk is relevant to that. If somebody owes me money, that's an asset. I would write down that asset if I thought they weren't going to pay me. I'd make a provision, you see. I'd be treating it differently.*
	Accounting expert (3)	*Question three says that neutrality means there is no difference with respect to liabilities and assets. I agree. In principle, I agree. Since the FASB has agreed that stewardship is a primary objective of accounting, I think that this may be a problem. I agree in principle, but I'm not sure, if you look at stewardship, that it is right. Stewardship is about the aging principle problem. As an owner of a business, I would be more concerned that the management portray the business better than it was than if they portrayed it worse than it was. It may be within a stewardship perspective that I would put more emphasis on the reports not being over valued than them being undervalued. I guess that goes to four, also, because that's to do with conservatism. I understand what the board member says, and I think in the ideal world I agree, but in the not ideal world, where we do have uncertainties within the fair value estimates that we provide, we do have uncertainties within a lot of estimates that we provide, I'm not sure we should just… Recognising the stewardship objective, I'm not sure that neutrality should overrule any form of conservatism.*
	Accounting expert (4)	*Yes, in getting rid of it [prudence]. I'd like to get rid of it. You get rid of conservatism because it's a bias. We want to remove bias from accounts, and conservatism is a deliberate downward biasing*
Going concern	*UK ASB member*	*Going concern concept is very important. We've got to have a basic concept of what we're assuming…….. It's an assumption for the whole of the accounts. It's fundamental. It's not just for recognition. It's for measurement as well. Your measurement criteria would change drastically*

	Accounting expert (3)	*If the whole point is the going concern concept, the idea is you should give some information about what is the value of the going concern concept, I think you might be allowed to bundle assets.* ***[From your point of view, what are the users' needs in practical life?]*** *Going concern.*
Event vs. transaction vs. valuation dominance	**IASB member (2)**	*I do not think that we should have to have transactions. Why we have to have a transaction? What we were about if you read this [proposed CF] it is about economic events, circumstances and changes in them. Now, it has nothing to do with a transaction. A transaction is only one type of economic event, circumstances. So, this new conceptual framework is much broader than transactions already.* ***[Great! So we are in the way to broader the area of a transaction]*** *That would be my preference. A transaction is used in here. It talks now about economic events, circumstances and conditions. Transaction is one type, and again, that is my personal view. This is going to be a big argument ….many people think, they feel better if they see a transaction.* ***[i.e. when we have an evidence]*** *Exactly*
	Accounting expert (4)	***[Do you agree about returning back to the difference between the transaction based and the valuation based?]*** *If we have a valuation base, that's fine, but you need to be consistent. When you know your football team is worth a hundred million pounds, and fifty million of that football team has been bought in, and fifty million pounds has been home grown, then the balance sheet should have a hundred million on it, not fifty, because that's misleading. You can't compare a football club that has home grown talent with a football club that has purchased in its talent. You've lost comparability across the industry, then. Although IAS 38 won't recognise them, I think that's too strict, and we need to take a reasonableness test and say materiality 'We'll put them in because it's useful information.'*

Appendix D: E-Covering Letter for the Questionnaire.

Dear Sir/ Madam,

As a PhD in Brunel Business School, I will be much appreciated if you help me and complete this survey. In that regard, I hope that you will take about 5 minutes of your precious time to click on the hyperlink, below, and complete the 'tick-the-boxes', auto-send questionnaire.

http://www.surveymonkey.com/s.aspx?sm=vPhqKscwy7krav6aLA0Kmg_3d_3d <https://owa1.brunel.ac.uk/exchweb/bin/redir.asp?URL=https://owa1.brunel.ac.uk/exchweb/bin/redir.asp?URL=http://www.surveymonkey.com/s.aspx?sm=vPhqKscwy7krav6aLA0Kmg_3d_3d>

Whilst the individual results will be confidential, the summary results will be sent to all those who take part in the survey. If you have any queries about the questionnaire, or you wish to become more involved in this research project, please contact Nevine.Eltawy@brunel.ac.uk

Yours sincerely

M/s Nevine El-Tawy

Dr Tony Tollington ACMA

Prof. Magdy Abdel-Kader

Appendix E: The Questionnaire.

1. EXPLORING RIGHTS-BASED ASSET RECOGNITION:

	Strongly oppose	Oppose	Neutral	Support	Strongly support
1.1 A business entity would want the legal 'right' to control an asset.	Strongly oppose	Oppose	Neutral	Support	Strongly support
1.2 A business entity would want a 'right' to control an asset that effectively prevents others from competing with that business entity.	Strongly oppose	Oppose	Neutral	Support	Strongly support
1.3 The economic resource in respect of the accounting recognition of an intangible asset is a legally enforceable right.	Strongly oppose	Oppose	Neutral	Support	Strongly support
1.4 There are many intangible economic resources in a business that are not	Strongly oppose	Oppose	Neutral	Support	Strongly support

recognised as intangible assets for accounting purposes.					
1.5 The rights attached to an asset include a business entity's right to use an asset.	Strongly oppose	Oppose	Neutral	Support	Strongly support
1.6 The rights attached to an asset include a business entity's right to manage an asset.	Strongly oppose	Oppose	Neutral	Support	Strongly support
1.7 The rights attached to an asset include a business entity's right to apply the asset as security.	Strongly oppose	Oppose	Neutral	Support	Strongly support
1.8 The rights attached to an asset include a business entity's right to transfer an asset.	Strongly oppose	Oppose	Neutral	Support	Strongly support
1.9 The rights attached to an asset	Strongly oppose	Oppose	Neutral	Support	Strongly support

include a business entity's right to settle debts with it.					
1.10 The rights attached to an asset (whether leased or purchased) include a business entity's right to any residuary character – what may remain after an asset is fully depreciated.	Strongly oppose	Oppose	Neutral	Support	Strongly support
1.11 The rights attached to an asset are for the life or duration of an asset unless legally determined otherwise.	Strongly oppose	Oppose	Neutral	Support	Strongly support
1.12 An asset should not be used to harm others.	Strongly oppose	Oppose	Neutral	Support	Strongly support
1.13 The rights attached to an asset include a business	Strongly oppose	Oppose	Neutral	Support	Strongly support

entity's right to future economic benefits.					
1.14 The rights attached to an asset include a business entity's right to future economic benefits and any related probable capital gains or losses.	Strongly oppose	Oppose	Neutral	Support	Strongly support
1.15 Generally, the above 'rights' (points 1.5 – 1.14) may be attached to all types of assets: tangible assets and intangible assets alike.	Strongly oppose	Oppose	Neutral	Support	Strongly support
1.16 Generally, a 'right' is ineffective unless it is supported by documentary or similar physical evidence.	Strongly oppose	Oppose	Neutral	Support	Strongly support
1.17 Generally, a 'right' is ineffective	Strongly oppose	Oppose	Neutral	Support	Strongly support

unless it is a legally enforceable right.					
1.18 There is no 'right' to control a human being unless one believes in slavery.	Strongly oppose	Oppose	Neutral	Support	Strongly support

Any other comment on 'RIGHTS-BASED ASSET RECOGNITION'

2. EXPLORING THE ROLE OF SEPARABILITY IN THE ASSET RECOGNITION PROCESS

	Strongly oppose	**Oppose**	**Neutral**	**Support**	**Strongly support**
2.1 It is possible to disclose separable 'individual' assets and separable 'bundles' of assets on the balance sheet.	Strongly oppose	Oppose	Neutral	Support	Strongly support
2.2 What characterises a separable asset is whether it is capable of being transferred separately from the other assets of a business	Strongly oppose	Oppose	Neutral	Support	Strongly support

entity.					
2.3 The disclosure of bundles of assets should be avoided wherever possible.	Strongly oppose	Oppose	Neutral	Support	Strongly support
2.4 The level at which assets are either aggregated or disaggregated for disclosure purposes depends on the type of business, for example, car component manufacturer for component assets or car distributor for a car asset.	Strongly oppose	Oppose	Neutral	Support	Strongly support
2.5 The level at which assets are either aggregated or disaggregated for disclosure purposes depends on the type of asset, for example, a single machine or an integrated production line.	Strongly oppose	Oppose	Neutral	Support	Strongly support

2.6 Whether a business entity discloses an individual asset or a bundled asset as a single unit-of-account depends on the decision usefulness of that information as presented on the balance sheet.	Strongly oppose	Oppose	Neutral	Support	Strongly support
2.7 The balance sheet should only show those assets that are separable from the other assets of a business entity.	Strongly oppose	Oppose	Neutral	Support	Strongly support

Any other comment on 'THE ROLE OF SEPARABILITY IN THE ASSET RECOGNITION PROCESS'

3. EXPLORING THE CHARACTERISTICS OF A MEASURABLE ASSET (EXCL. MEASUREMENT BASES)

	Strongly oppose	Oppose	Neutral	Support	Strongly support
3.1 'Assets' intended to prevent competition or prevent pollution or meet some statutory requirement may have a zero value that should, nevertheless, be disclosed on the balance sheet	Strongly oppose	Oppose	Neutral	Support	Strongly support
3.2 An asset measurement should be capable of being observed.	Strongly oppose	Oppose	Neutral	Support	Strongly support
3.3 The observation of a measurement basis is restricted to the past and present, not the future.	Strongly oppose	Oppose	Neutral	Support	Strongly support
3.4 Whatever measurement basis is applied in accounting it should be a single measurement basis, not one using mixed measurement	Strongly oppose	Oppose	Neutral	Support	Strongly support

bases.					
3.5 Mixed measurement bases are inherently non-additive in nature despite the fact that, in practice, they are added together.	Strongly oppose	Oppose	Neutral	Support	Strongly support
3.6 Many asset measurements may not reflect the market values.	Strongly oppose	Oppose	Neutral	Support	Strongly support
3.7 Many asset measurements do not represent the value of "current economic phenomena".	Strongly oppose	Oppose	Neutral	Support	Strongly support

Any other comment on 'THE CHARACTERISTICS OF A MEASURABLE ASSET'

4. EXPLORING THE CHARACTERISTICS OF REPRESENTATION

	Strongly oppose	**Oppose**	**Neutral**	**Support**	**Strongly support**
4.1 Many 'assets' are not disclosed on	Strongly oppose	Oppose	Neutral	Support	Strongly support

the balance sheet.					
4.2 The balance sheet is self-referential, that is, it represents what it purports to represent and nothing more.	Strongly oppose	Oppose	Neutral	Support	Strongly support
4.3 The balance sheet should faithfully represent economic reality.	Strongly oppose	Oppose	Neutral	Support	Strongly support

Any other comment on 'THE CHARACTERISTICS OF REPRESENTATION'