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# A Study of Formulating Financial Reporting Model for Intangible Assets

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## *Abstract*

The financial reporting is an essential function of accounting, it express in fairly for the correct value of economic unit. This requires a display in balance sheet all owned assets for economic unit together tangible and intangible, can it measure according to for available traditional accounting measurements or it measures impossible in these measurements, this requires new relevance measurements for intangible assets which cannot indicate it in cash. Although the shifting in economic age towards the intellectual economic or information age but the accountants still work in assumptions of the industrial age which put for tangible assets and its role for creating the value for economic unit, this will can lead the economic units to fail. Incorrectly attribute all difference between the book value and market value for intangible assets which not recognized in the balance sheet, this difference comprises, in addition, the value of this asset the effect of inflation and the influence of economic and political decisions. The intellectual capital centralizing about itself, which consider intellectual capital for certain corporation but not ditto for another, this means the comparison between two corporations did not give acceptable results, the benefited comparative between two years or more for the corporation itself which determine the development in accumulated knowledge incorporation.

***Keywords:*** *Financial Reporting; Intangible Assets*

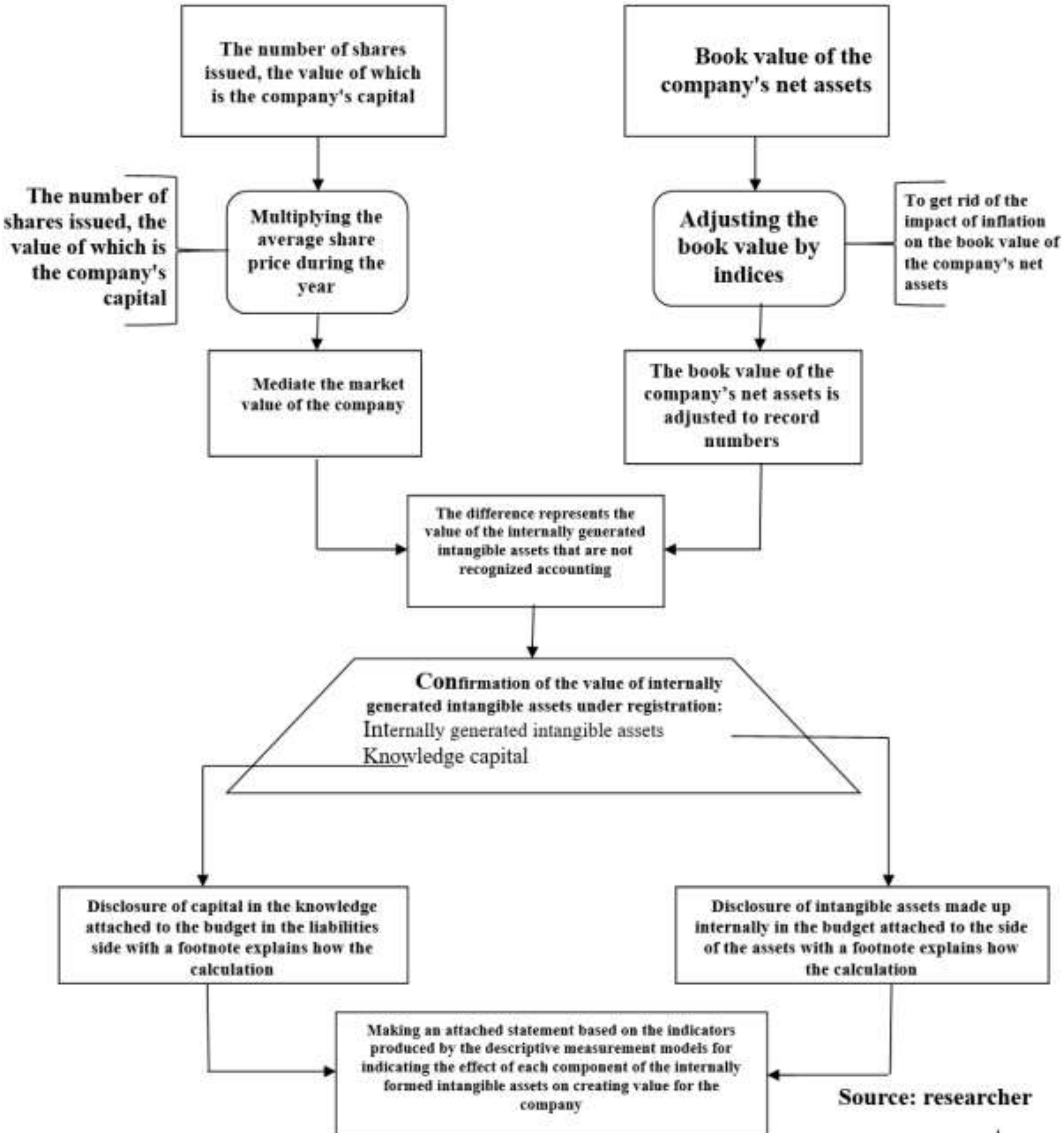
## *Introduction*

Financial Reporting is the primary function of accounting. Through financial reporting, the right value of the economic unit is fairly and reliably expressed by displaying the assets that that unit possesses, whether tangible or intangible, measurable based on available metrics. Traditional accounting in this field or not measurable according to these standards, which requires research on new standards that are consistent with the nature of the assets that cannot be expressed in monetary union, and many studies have focused on the necessity of changing the scope of the financial reporting function in accounting according to the many changes.

And if we recognize that financial reporting in its broadest sense means measurement and disclosure, the required change in accounting according to environmental changes in general and economic changes, in particular, is concentrated in both the measurement and disclosure functions alike with the aim of measuring and displaying the correct value of the economic unit. Based on that, the aim of the study is limited to formulating a financial reporting form for intangible assets, as the model that the study tries to formulate depends on measuring the value of those assets by developing a measurement model that depends on the difference between the book value of the company and its market value and determining the value of the assets that are not recognized. Accounting according to what was determined by the generally accepted accounting principles, and then fixing this value in the records and disclosing them by classifying the intangible assets into their main components and benefiting from the indicators provided by the administrative researchers from indicators in this field. the statement of the problem of the study is the traditional accounting standards that appeared in the era of industrial economics are no longer able to express fairly and credibly the correct value of economic unity and the tangible assets and intangible assets that unit possesses in the epoch of knowledge economy, as these standards focused on assets that can be measured by monetary unit, whether concrete or intangible or left what cannot be measured without trying to find alternative measures for those assets because of the presence of constants set by the accountants themselves in the era of industrial economics such as the ability to monetary measurement and objectivity and reservation and therefore the problem of the study is limited to that there is a lack of reporting To present for intangible assets under Generally Accepted Accounting Principles (GAAP), making financial statements do not reflect the fairness and credibility of the correct economic value of the unit. The anticipated transformation of the Iraqi economy into what is known as a market economy places the currency companies in the Kurdistan Region in front of a major challenge represented by competition with international companies, which has to arm themselves with knowledge of all its ingredients, including increasing interest in intangible assets in order to achieve the competitive advantage that enables them to remain in the market, and In this context, it is in the era of the knowledge economy that intangible assets are the main resource and the primary determinant of competitive advantage, economic success and value creation for the company. Hence, the importance of this study highlights the presentation of a model for financial reporting on these assets that is in line with potential changes in the Iraqi environment in order to deliver appropriate and reliable information to stakeholders from investors, creditors and others, which contributes to making sound decisions regarding the flow of capital to sectors that achieve economic growth, which It benefits not only the stakeholders and the companies concerned but also the Iraqi economy, the Kurdistan Region in general. The study is based on the main objectives that the formulation of a model for financial reporting of intangible assets in local economic units can express fairly and reliably the correct value of these units.

It presents a description of the methodology adopted in accomplishing the requirements of this study, starting with the importance of the study, then the problem that the study tries to solve and the hypothesis adopted to solve that problem and reaching through it to the goal of the study, its limits and the basic features of the proposed model and the procedural plan for it. After studying the measurement and disclosure models for the intangible assets that appeared in both administrative and accounting literature, the researcher developed an integrated model for financial reporting on those assets through developing a measurement model that adopts the difference between the market and book values of the company and trying to address the defects of this model by adopting The average market value during the year instead of the market value in (12/31), and thus the effects of economic and political decisions on stock prices were eliminated, on the one hand, and on the other hand, the revised book value was adopted in the index numbers for the purposes of the rise in the general level of prices for the purpose of eliminating the effect of inflation on this value of assets in terms of measurement. As for the part that complements the financial reporting of intangible assets, which is disclosure, an accounting record similar to the corresponding entry has been adopted in order to avoid affecting the result of the company, and then disclose the total value of intangible assets that they are not recognized under the accounting principles on both sides of the attached budget and amended for the purpose of increasing the general level of prices, as intangible assets formed internally on the asset side and as knowledge capital on the other side of the budget and the development of a marginal note explaining to the reader of financial reports Mechanism for calculating the value of these assets.

Although the total disclosure of the value of internally generated intangible assets is of benefit to the users of financial reports, through which they will have a picture of the correct value of the company, but this benefit is greater if the details or components of those assets are disclosed, and the researcher relied on some The indicators mentioned in the descriptive models presented in the administrative literature to measure the intangible assets to make a list of details of those assets that are attached to the financial statements of the company divided into the three main types of knowledge capital, which are human capital, structural capital, customer capital, and Figure (1). Below is an outline of the proposed study model for the financial reporting of intangible assets.




Source: researcher

## *Literature Review*

Header (Bontis, 2002) Assessing Knowledge Assets: a review of the models used to measure intellectual capital. In this study, the researcher examined the multiple models presented in accounting and administrative literature in general to measure cognitive capital (intangible assets), focusing on the strengths and weaknesses and the mechanism by which each of the models that have received a particular reputation, such as (Skandia Navigator), ahead index Knowledge money, technology broker, monitoring intangible assets, added market value and added economic value, weighted patent. The study also focused on the extreme difficulties facing standards-setting bodies to set standards for disclosing intangible assets, as well as the possibility of blindness These models meet the needs of international diversity, and the researcher has recommended not to try to set standards for knowledge capital at this stage as it is a stage of development, research and development, and that voluntary disclosure is the appropriate solution in this case, and researchers and academics should continue to prepare studies based on the experiment in order to The number of those adopting a particular model for measuring knowledge capital is increasing.

As for the study (Molhotra, 2003) Measuring Knowledge Assets a Nation: knowledge system for development. This study came on an international level and focused on the continuous transformation of member states of the United Nations from energy-dependent economies with traditional factors of production to economies that rely on information and the basis of which are knowledge assets and knowledge capital. The goal of the study was limited specifically to developing theoretical and realistic foundations for management and measuring knowledge assets in order to facilitate the perception of the comprehensive development and growth that the third millennium will witness in international knowledge societies and that must be accomplished through cultural and human development as well as economic growth. The researcher analyzed and compared the most common models to measure international knowledge assets, and that has two main results:

1- Building the capacity of the public sector to measure and manage knowledge assets and suggest developing and identifying specific frameworks, methodologies, models, and indicators for this purpose.

2- Develop specific recommendations for the necessary improvements needed by knowledge assets management, measurement models and indicators.

The study also emphasized that the future development of such models depends on a better understanding of human and social capital and their familiarity with existing frameworks and models for knowledge capital.

The other study (Lonnqvist, 2004; Nambirajan and Prabhu, 2010) Measurement of Intangible Success Factors: case studies on the design, implementation and use of measures. It is a doctoral thesis in which the researcher amines what are known as intangible success factors, which he defined as a concept that refers to both intangible assets and related activities. The aim of the study was limited to determining how these factors can be measured and what are the main challenges in measuring them? The answer to these questions came through three steps: designing the measures, implementing them and then using them. The researcher has adopted both the questionnaire method and the method of personal interviews to complete his study.

The main contribution of the study was a detailed description of how to measure intangible success factors and identify challenges facing different steps to measure them.

An Accounting Perspective on Intellectual Capital. Researchers in this study examines the evolution of the accounting perspective of knowledge capital (intangible assets) and have found that certain factors such as globalization and the buyer's market that require creativity in most developed countries have prompted Intangible resources such as research and development, relationships, skills, and creativity are the basis for competitive advantage and better corporate performance, and therefore traditional accounting information on a cost basis needs to be integrated with intangible value guides, but the accounting principles that have been developed during do not allow the past to include information (Lev et al. 2005; Madan Mohan & Prabhu 2013). The study emphasized that uncertainty about future economic benefits and lack of full control over them, as well as the absence of markets to reliably measure and evaluate tangibles, made accounting organizations resist adopting acceptable standards for tangibles, and at this stage, voluntary disclosure of tangibles is an acceptable solution to avoid a lack of relevance in accounting information.

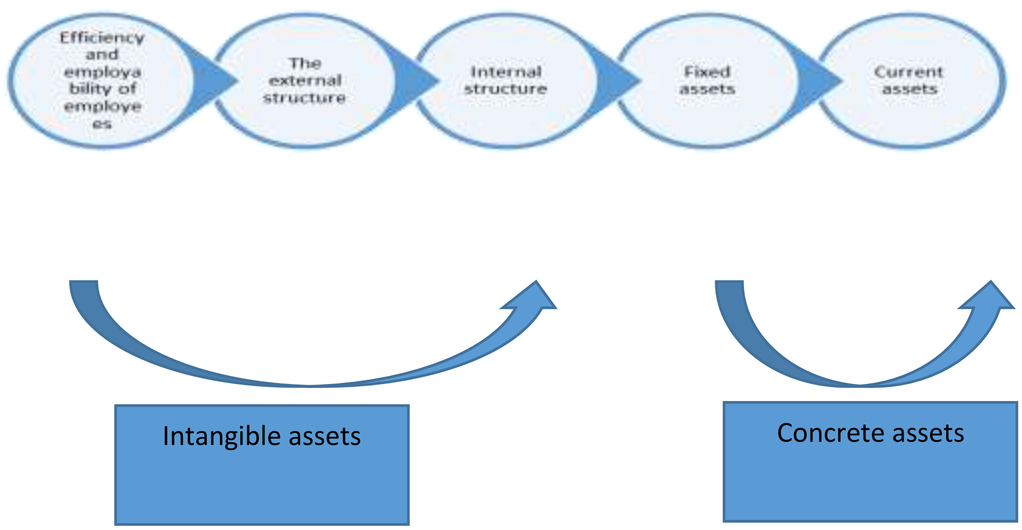
Intellectual Capital Accounting: Practices in a Developing Country. This study examines knowledge capital reporting practices (ICR) with a focus on human capital in a developing country (Sri Lanka). As the aim of the study was to verify the following: Firstly, to what extent the major companies differ and on the basis of the number of shareholders in knowledge capital reporting practices, and secondly to the extent to which companies in Sri Lanka specifically differ from their similarities in other countries in the practice of that reporting, the researcher studied the annual reports of (30) companies from the companies listed on the Colombo Stock Exchange and for two years 1998/1999 - 1999/2000 to analyze the type and value of knowledge capital recognized by each company, and this was strengthened by personal interviews with the managers and executive supervisors in those companies. The results indicated that there are distinct differences in the practice of reporting knowledge capital between major companies in general and between companies in Sri Lanka and their counterparts in other countries in terms of knowledge capital rankings and elements, and these differences are due to the economic model followed and to the social and political environment of each country (Abeysekera, 2008; Pankaj & Ramyar, 2019).

Abeysekera, (2008) Intellectual Capital Accounting: Practices in a Developing Country. This study examines knowledge capital reporting practices (ICR) with a focus on human capital in a developing country (Sri Lanka). As the aim of the study was to verify the following: Firstly, to what extent the major companies differ and on the basis of the number of shareholders in knowledge capital reporting practices, and secondly to the extent to which companies in Sri Lanka specifically differ from their similarities in other countries in the practice of that reporting, the researcher studied the annual reports of (30) companies from the companies listed on the Colombo Stock Exchange and for two years 1998/1999 - 1999/2000 to analyze the type and value of knowledge capital recognized by each company, and this was strengthened by personal interviews with the managers and executive supervisors in those companies. The results indicated that there are distinct differences in the practice of reporting knowledge capital between major companies in general and between companies in Sri Lanka and their counterparts in other countries in terms of knowledge capital rankings and elements, and these differences are due to the economic model followed and to the social and political environment of each country.

## *The Concept of Assets Is Intangible*

There is a big difference in defining and defining each of the concepts of intangible assets, knowledge capital, intangibles, and knowledge assets. In this part of the study, definitions of these concepts will be presented to different researchers, comparison between them, and analysis of the results of that comparison. The concept of intangible assets and knowledge capital is the most common among researchers, and although the concept of knowledge capital appeared in administrative literature, but many researchers in the accounting field dealt with this concept, and the motivation behind the definition of intangible assets or knowledge capital is the need to obtain more clarity on the company's fair value or market value. Whereat the end of the nineties of the last century and for many companies, especially knowledge-based companies such as software, consulting and chemical industries, the book value presented in the budget list represents only a small portion of the market value of those companies, and the difference between the two values is considered by researchers as knowledge capital or assets Intangible. According to Sveiby (1997) presented a classification of the company's assets as follows:

***Classification of Company Assets***




**Source: (Sveiby, 1997: 11)**

It is clear from the above figure that the company's assets with tangible assets represented by fixed assets such as machinery and equipment and other traded assets such as cash and accounts receivable in the left side of the figure and the right side includes intangible assets that include the internal structure, which includes the patent, models and administrative systems, as for the structure The exterior includes the brand, image, and company relationships with customers and suppliers, while the competence and capabilities of employees included skill and knowledge and how the employee retains this knowledge If we make a simple comparison between the definition of intangible assets in financial accounting and what he referred to (Sveiby, 1997), we find that the concept of intangible assets in financial accounting is much narrower as the concept of intangible assets refers to specific paragraphs in the public budget such as research and development expenses and intellectual property rights Goodwill, and the elements of intangible assets presented in the budget vary from country to country, depending on the accounting standards used and what the relevant laws and regulations permit (Radebaugh & Gray, 1997).

Intangible assets by indicating the characteristics that distinguish them from other assets and he identified two properties: (Olve, 2003).

1- It is intangible assets, as it does not resemble tangible assets such as machinery and equipment, and its value is derived from the rights and privileges granted to the company for its use.

2- They are not financial instruments, as assets such as bank deposits, debit accounts, and long-term investments in stocks and bonds are considered intangible but are not classified as intangible assets, as these assets are financial instruments whose value is derived from the rights to receive cash or its equivalent In the future.

As for the International Accounting Standards Board (IASB) in Standard No. 38, which came under the title Intangible Assets, it was defined as “identifiable, non-material or monetary assets held for use in the production or processing of goods and services or for leasing to others or for administrative purposes” and the standard set a narrow view To include the element in intangible assets by setting two main conditions: (IASB, 1999: IAS 38, Para.7)

1- That the company controls it as a result of past events such as purchasing or internal development.
2- It is expected that future economic benefits will flow to the company.
Consequently, and compared to the (Sveiby, 1997) determination of intangible assets (the right side of Figure 3), the company has many intangible assets, some of which can be presented in the general budget while others cannot be presented as defined by the International Accounting Standards Board (Standard 38).

As for knowledge capital, it has been defined by the Organization for Economic Cooperation and Development (OECD) as the economic value of two classes of intangible assets are organizational capital structural and human capital, organizational or structural capital refers to software systems and distribution networks and supply chains, while Human capital refers to a company's human resources user resource and its external relationships with customers and suppliers (Kothari, 2002). However, the definition neglected other forms of intangible assets such as the company's reputation, and according to the definition provided by the Organization for Economic Cooperation and Development, knowledge capital is part of the intangible assets, as well as dealt with knowledge capital as part of Intangible assets, as they divided the latter into two different levels are the intangible assets generated, the intangible assets exploited commercially, the assets generated include human capital, internal capital, and external capital, while the assets that can be exploited commercially include intangible property rights and assets A birth can be called cognitive capital (Lebowitz and Suen, 2000; Bontis, 2001; Prabhu et al. 2019).

## *Contemporary Trends of Financial Reporting for Intangible Assets*

With the increase in the gap between the market value of the company and the value presented to it in the budget, everyone began to realize the weakness of the appropriateness of accounting information provided by the current financial reporting model for the purpose of taking decisions by management and stakeholders alike, and this, in turn, led many scientific organizations, institutions and institutes to study the effects of the times. The new economist is based on the traditional model of financial reporting and producing publications, reports and studies that will open the way for radical changes in the current financial reporting model or the development of an alternative financial reporting model that would provide more information.

### New Economic Era:

It is no longer a secret to one of the researchers that we have been living since the beginning of the last decade of the last century, the transition towards a new economic era, one in which knowledge is the prominent feature or the most important element. Alvin Toffler mentioned that the era of economies dependent on the industry is over because the knowledge, and not industry, is the key to economic growth in the 21st century (Sullivan, 2000; Basariya & Ahmed, 2019). It is not difficult to track changes in economic times where before the Industrial Revolution, the era of agricultural economics and the division of society into two classes were the landowners, the class that possesses wealth, and the people who work in these lands or what is known as the slave class, as the land represented the most important element and source of wealth, Then, suddenly, the industrial age came and everything changed with it, so agriculture is no longer the source of wealth and wealth, and the plant was dissolved on the ground and became the main element in creating wealth. With the launch of the Internet in 1989, the situation began to change again, and many obstacles and barriers to achieving the wealth that existed in the industrial age were removed and the knowledge represented by information became the basis for creating wealth. Thus, we have moved from the agricultural era, through the industrial age, to the information age. Many professional organizations and bodies in the world have endeavored to face the challenges that the epoch of knowledge economy has imposed on financial reporting through preparing studies, issuing reports, pamphlets and proposed projects to issue standards that improve financial reporting towards more appropriate, reliable and accessible information for all users. The researcher here presents, in a nutshell, the efforts of some of these international bodies and organizations in this field.

The American Institute of Certified Public Accountants (AICPA) is one of the first professional organizations to advocate for improving financial reporting in line with the new era, in 1991 the Institute formed a special committee called the Improving Business Reporting although this committee is not She is directly responsible for the challenges of the new economic era, but her report, which was issued in 1995, touched on many important issues in this regard, among which was included in the following report: (Jenkins, 1994) There are impressive results for increased competition and accelerated technological progress, and companies to remain and compete must change everything - the way they are organized and managed, the way they work to develop new products, the way to manage risks, their relationship with other organizations, focus on the customer, demonstrate low-value activity, Decentralization of decisions, reducing the time required to complete the main activities, forming new alliances with suppliers, customers, and even competitors, and re-examining businesses in light of the increased competition.

In February 1996, the Financial Accounting Standards Board (FASB) invited to comment on the recommendations of the AICPA Business Reporting Committee, to gain more views on those recommendations. Among the most important issues that the Council called upon the various authorities to comment on is it required to expand its activities beyond the financial statements and associated disclosures to address also non-financial information that can be included in a comprehensive financial reporting form?. The answers were mixed in this area, particularly about the council's responsibility to disclose non-financial information, as some respondents opposed the issue of the council setting a standard for non-financial information, while another group of them called on the council to take a leading leadership role in developing a comprehensive business reporting model. This prompted the Board to seriously consider issuing a standard for the disclosure of information related to intangible assets. In 2001, a proposal for a new standard project was presented which focused specifically on intangible assets that are not recognized in the financial statements.

The proposal described it as a possible draft standard for FASB for the disclosure of intangible assets that focuses on improving information about those assets that seem too many users of accounting information to be increasingly important to business success but is currently not recognized as an asset in the financial statements. Intangible assets are generally recognized only if they are acquired either separately or as part of a business combination. As for intangible assets formed internally as well as some acquired assets that are amortized directly after the acquisition, they are not shown in the financial statements and a few quantitative and qualitative information about them is established. It appeared in those statements. The proposed draft standard has identified two main objectives: (FASB, 2001).

1- Providing new information to investors and creditors and improving the quality of the information currently provided.

2- This project will be the first step for development towards recognizing the intangible assets internally formed in the financial statements.

`The importance of issuing standards related to financial reporting of intangible assets was also emphasized in the project, as it stated without the leadership of FASB and IASB and other standards development bodies, it is not likely that companies will consistently supply the users of the financial statements with relevant information Reasonable comparability about intangible assets (FASB, 2001)
The Canadian Institute of Certified Public Accountants (CICA) began working to meet the challenges of the new economy since 1994 when it issued its report in 1995 and came under the title of "Performance Measures in the New Economy" and one of the most important findings of the following report: (ICAEW, 1995).

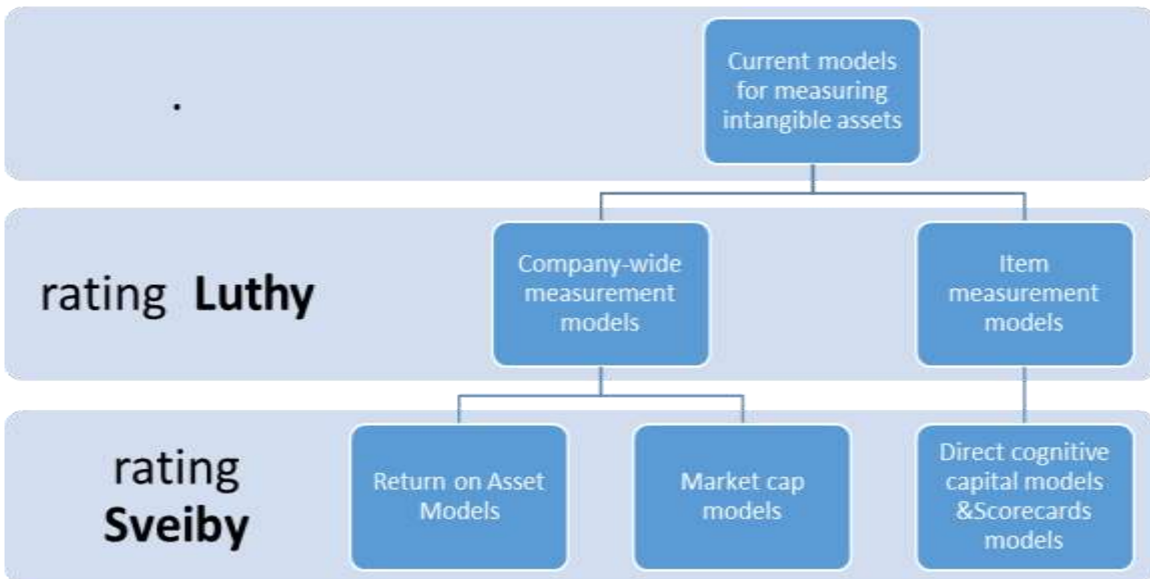
Important results from interviews and research conducted to prepare this report showed the need for new performance measures instead of those in the current accounting model, to be recognized not only by accounting theorists but also by CEOs and senior officials in Canada's major banks, as well as A number of leading companies are actively experimenting with new performance measurement systems that focus on knowledge-based activities. In addition to the realistic (pragmatic) concerns recorded by company executives, there is a strong theoretical case supporting the trend that the current accounting model is not appropriate to reflect the economic reality of knowledge-based companies. It is difficult to face the challenges of the new economy as long as the proper accounting for knowledge-based businesses ultimately requires the creation of a new accounting model.

In 1999, the Organization for Economic Cooperation and Development (OECD) organized a conference for measuring and reporting knowledge capital. The head of a real estate loan company, Stuart Hornery, who chaired the conference, outlined a number of points, namely: (Upton, 2001).

The process of creating value in companies has changed, and there is a need for better information about knowledge capital and its relationship to tangible capital and its role in creating value, although the financial information is sophisticated on its own it is not sufficient. International organizations, governments, standards-setting organizations and other stakeholders should encourage experiences that lead to general principles and guidelines on reporting knowledge capital and information related to value creation, and they should regularly monitor such experiences and their results. Increasingly, the role of workers, suppliers, and customers must be taken into account in creating value.

### *What Is the Proposed Model for the Financial Reporting of Intangible Assets?*

Perhaps the most famous model of measurement for intangible assets is the model that is based on the ratio of the market value to the book value, but this model did not gain general acceptance of the existence of a number of determinants that make it difficult to adopt its results to report the intangible assets and therefore the proposed model for measurement depends on Developing a model of the ratio of the market value to the book value by reducing the impact of these determinants to the lowest possible level, it depends the average market value of the company during the year instead of the market value of the company at the end of the year, and thus it mitigates to a large extent from the effects of economic decisions and Political on stock prices and therefore on the market value of the company, this on the one hand and on the other hand the model relies on the book value adjusted in the index numbers for the purpose of increasing the general level of prices instead of the historical book value in order to get rid of the impact of inflation on the value of the assets, while the other part that complements the financial reporting It is the disclosure, and the form adopts both the attached financial statements, marginal notes and the attached statements to disclose the intangible assets that contribute to creating the value of the company and have not been recognized accounting, as shown in Figure (3) referred to annex The study methodology.




**Source: Researcher**

The effect of the increase in the general level of prices on accountants are well aware that the information provided by the current financial reporting lacks great relevance, as it does not take into account the change in the general level of prices, as accountants still adhere to the principle of historical cost, as it achieves objectivity. Accordingly, the book value of the company's net assets does not represent the correct value of the net assets and therefore its adoption as a basis for measuring intangible assets is not a valid procedure, as part of the value of the difference between the book value and the market value is due to the high general price level and cannot be attributed to hidden assets Not shown in the budget, and this is one of the criticisms directed at the model of the ratio of the market value to the book value, and in order to overcome this problem, it is necessary to amend the book value data to get rid of the effects of inflation.

According to the statement (33) of the Financial Accounting Standards Board (FASB), which represents a summary of attempts and for many years from the various bodies responsible for developing accounting standards for developing financial reporting methods for the effects of inflation on income and assets, in which the Council examined all alternative models for evaluating assets and determining income and reached a conclusion Attached information should be presented based on historical cost adjustment adjusted on the basis of fixed dollars or current cost accounting, and in particular the board requests the main companies to disclose the effects of both inflation on the general level and the special levels of prices as Information attached to their published financial reports (FASB, 2001 and SAFC, 1998).

The influence of market forces and economic and political decisions of the state one of the most important determinants of the ratio of the market value to the book value is that the stock market often and strongly responds to factors outside the control of the management and therefore its data is irregular

and affected by seasonal and periodic factors, in addition to this model ignores external factors that can affect the market value and the consequence of decisions Economic and political of the country and to mitigate the effects of these factors on the share price and thus on the market value of the company, the researcher resorted to taking the average market value during the year instead of the market value of the company at the end of the year where the average market value is calculated as follows:
The average market value of the company = the number of capital shares x average share price during the year.

The difference between the book value of the company's net assets is adjusted to record numbers and its average market value. If all the company's assets have been evaluated at the correct value and all the company's assets have been accounted for, it is assumed that in this case the difference between the book value of the net assets of the company is modified by the standard numbers and the average market value is not physical, and in the case of a material difference between the two values, this indicates the presence of hidden assets The company is owned and invested by the company but it has not been recognized by an accountant, and it specifically represents the intangible assets formed internally, because all the tangible and intangible assets acquired from abroad are recognized and shown in the budget, and it should be noted that the existence of the material difference is not counted. With the consent of the researcher, but many previous studies that have been referred to in the previous chapters confirmed that the market value is much greater than the book value, especially for companies based on knowledge, and accordingly, the proposed model assumes that the material difference between the book value of the net assets of the company is modified By indices and their average market value, they represent the value of internally generated intangible assets. Handling this difference accounting will make the financial statements more appropriate in expressing the correct value of the company.

Verify the value of internally generated intangible assets in the records. Measuring the value of intangible assets is not sufficient unless that value is proven in the records in preparation for disclosure, whether in the basic financial statements or in the lists and accompanying reports, and the problem with proving this type of asset is the creditor, as cash or the external body of the tangible assets is And intangibles acquired from abroad, but with intangible assets created internally, we cannot do this because it is difficult to measure the consideration paid by the company or is committed to it for the purpose of obtaining such assets. The owners are Balta To me, it represents a part of the capital formed as a result of the accumulation of knowledge with the company. Therefore, the status of the knowledge capital account as a counterpart to the internally generated intangible assets represents a logical behavior that provides disclosure to the users of the accounting information of the company's knowledge capital, i.e. it is possible to prove an accounting entry with the value of the difference between the net book value adjusted by the indices and between the average market value of the company is according to which intangible assets are internally formed at the debtor and knowledge capital in the creditor, and such a restriction is similar to the corresponding entry that is the purpose of control and affiliation Ahh and has no effect on the outcome of the company's business.

Disclosure of internally generated intangible assets. After the value of the intangible assets formed internally has been determined, it is necessary to disclose them in the appended and amended financial statements for the purposes of the rise in the general price level, and the proposed model relies on a total disclosure of that value in the attached appended budget for the purposes of the rise in the general price level through Stabilization on the assets side, and the difficulty of determining the nature of these assets as being fixed or current, they can be classified as other assets and placed in the attached budget on this basis, but as for the knowledge capital or the creditor party from the registration can appear on the side of Fasting, and specifically within the rights of the owners, as if the company was sold today, the value of those assets would be returned to the owners, in addition to these assets are in fact assets that have been fully amortized, as what the company spent on creating these assets is expense and the income is reduced from the year in which it was spent, i.e. The formation of these assets reduces the retained earnings of the company, and therefore it represents a right for the owners that can be added to the retained profits, but the researcher believes that it is necessary to put it under a separate account because of this benefit in following up the company's ability to develop in the acquisition of knowledge through its formation of knowledge capital. In the absence of a standard measurement model that enjoys general acceptance of the value of the internally formed assets, and for the reader of the financial report to be aware of how to determine the value of those assets, it is necessary to put a marginal note in the budget clarifying the calculation mechanism.

The advantages and limitations of the proposed model and its compatibility with the Iraqi environment. In order to evaluate the proposed study model, it is necessary to determine the most important advantages that it enjoys as well as the determinants that accompany its application because this would clarify the compatibility of this model with the environment expected to be applied in it, and therefore the focus will be on the advantages and limitations and the extent of compatibility with the Iraqi environment in this topic.

Advantages of the proposed study model look at the mechanism of the proposed model in this study, a number of advantages can be identified, the most important of which are:

Ease of use and it is not difficult to judge that the proposed model is easy to use, as it does not need complicated accounts or certain procedures that can confuse accounting work within the company, in addition to that it uses concepts that the accountant knows well while dealing with in his daily work because the accountant knows well what it means The market value as well as the book value and how it is adjusted by the indices for inflation purposes. Perhaps what the accountant needs to understand in the model is the accounting dealings with both the concepts of knowledge capital and intangible assets formed internally and determine their components or components that he has not previously dealt with E concepts of accounting, and the researcher's point of view there is no difficulty in dealing with concepts if they are clearly defined in the model, and as long as the measurement process underlying the model is characterized as easy as can be judged on the form completely as characterized by easy and not complicated.

Compatibility with accounting principles and contemporary accounting thought is based on a set of conventions and fundamentals that have been called common accounting principles. Contemporary accounting applications are not completely devoid of intellectual principles that can be relied upon to distinguish correct practices from those wrong practices. This accounting thought is based on a long time ago. Long on what is known as Generally Accepted Accounting Principles (GAAP) which are used as a basis for describing and justifying acceptable accounting applications in space and time (Shirazi, 1990: 267). These principles represent the general framework within which the auditor can judge the fairness of the financial statements, but more than that the external auditor must provide in his report his professional opinion regarding the company's commitment to these accepted accounting principles in preparing the financial statements, as any departure from it In practice, it requires reservation from him in his periodic report.

Availability of qualitative characteristics of accounting information in the results of the model is indicated in the second topic of this chapter, the results of the proposed study model are reasonably available in the main qualitative characteristics of accounting information, which are the appropriate and reliable properties, through the availability of subspecies for each of the main characteristics, as well as the availability of secondary characteristics of comparability and stability. The availability of such characteristics is an advantage of the proposed model.

Enhance the confidence of users of financial reports with the information contained in these reports that displaying the correct value of the company in the financial statements, even in a relative manner, represents the most important characteristics of the proposed model in this study, as the material difference between the market value of the company and its book value weakens the confidence of users of financial reports with the information contained in those reports, especially as they feel that there are assets owned by the company and not Included in these reports is because the financial reporting model does not accommodate a specific way to measure and disclose those assets, and therefore the application of the proposed model would enhance the confidence of users of accounting information in the numbers contained in financial reports, which means reducing the diligence of these To users and through to use financial to estimate the values of the assets owned by the company, which is not recognized accounting, and this leads to that investors are getting younger who do not have the ability to analysis and conclusion on the relevant information that can be reached by large investors.

## *Conclusion*

Globalization, intense competition, new technologies, modern markets and industrial integration are characteristics of the epoch of knowledge economy and indications that the era of the industrial economy has ended, and this means that traditional financial reporting has become less appropriate for the beneficiaries of accounting information, especially external stakeholders from investors, creditors and others, as information has been lost Conventional accounting is one of its most important qualitative characteristics, which is suitability, which obliges accountants to change their priorities according to the change in the elements of value creation, the tangible assets are no longer the primary and important element in creating value for the company but rather The customer satisfaction, patent, trademark, and knowledge owned by workers have become the elements that make the company maintain its competitive position and increase its value, a condition that provides certain characteristics in the concept (to be practical and procedural) in order to be dealt with accounting, makes intangible assets not considered an accounting concept Except to the extent that it can be measured objectively, and if we concede that the majority of intangible assets are difficult to subject to objective measurement, then accountants must deal with this concept very narrowly, therefore it is not possible to say that a concept is rejected or accepted according to its ability to objectively measure and necessary Its inclusion in the content of the shows defined procedures, because those properties are subject to change depending on the evolution of scientific research and to find methods and modern methods of measurement and a reasonable degree of objectivity.

On the other hand, both the concepts of intangible assets and knowledge capital are the most common and used in accounting and administrative literature in general, and the majority of researchers deal with these concepts as synonyms, and this does not prevent the presence of other researchers who hold different views, some of whom consider intangible assets more comprehensive than Cognitive capital, including some who believe otherwise, and because accountants do not recognize the majority of intangible assets, especially those that are internally formed, it can be said that the accounting view is that intangible assets are a simple subset of cognitive capital, There is a wide difference between the different viewpoints (accounting, administrative, marketing, financial) related to the classification of intangible assets, and this if it indicates something, rather, indicates the absence of a specific classification that has general acceptance, and the classification of accountants for these assets into two groups that are first recognized GAAP (such as patent, goodwill associated with the purchase, capitalized R&D costs) and second that are not recognized accounting (such as customer relationship, employee experience and knowledge, company image, reputation, brand, and ability to for creativity) can help to isolate the assets that represent the difference between the market value and the book value of the company and then search for common characteristics between these assets in preparation for measuring and reporting them.

## *Recommendation*

In the researcher's conclusions, he can make a set of recommendations that would contribute to improving financial reporting and make it more appropriate and reliable in expressing the correct value of the company. Given that the application of the model proposed in this study related to financial reporting on intangible assets gives acceptable results that will improve financial reporting in general, and that working with it does not confuse accounting and auditing work alike, as it does not intersect with accepted accounting principles Generally, the researcher recommends that the proposed model be applied in the companies listed on the Iraq Stock Exchange, focusing on the following points:

1- Ensure that fixed asset exposures are calculated objectively and express the fact of a gradual decrease in the life of the asset, in order to arrive at correct book value in accordance with the principle of historical cost.

2- Activating the work with the local rule (8) "Information that reflects the effects of price changes" because this helps to provide data that can be used in the proposed form to access information about the value of intangible assets in the company that are not recognized accounting, this is on the one hand and on the one hand Others The introduction of the said rule would assist in improving overall financial reporting.

3- Studying the real reasons behind the sharp increases or decreases in the company's stock prices and verifying whether they are the result of adding value to the company or as a result of economic conditions and decisions outside the control of the management, and taking all of this into account when determining the average market value of the company during the year, which is approved The difference between them and the adjusted book value for the purpose of increasing the general level of prices to determine the value of intangible assets, according to what is presented in the study model.

4- Comparing the results of the proposed model for financial reporting of intangible assets, whether they are with the total value of those assets, or what the indicators and values are producing in terms of percentages and percentages of their elements, with the results of the previous year or years for the same company and displaying the comparison statement within the attached statements for the purpose of giving a picture to the management, investors and other users about the head Company knowledge money.

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