Accounting of Intangible Assets An Empirical Study on the Saudi environment

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Abstract: This research aims to investigate the application of Saudi shareholders companies to the IAS (38) and Saudi accounting standard no (3) in respect of intangible assets, especially for companies that trade in stocks market in Saudi Arabia and accounting action of such assets including an analytical study of measurements and view intangibles in contemporary accounting thought. Moreover, the study explores the position of SMEs in dealing with accounting for intangible assets by conducting a field study for the Saudi shareholders companies. To do the field study, the researcher selected a random sample of the groups that deals with the analysis and studies the statements and financial reports of Saudi shareholding companies for investment and credit. Data were collected for study through survey, and then analyze this data using statistical methods to test the hypotheses. The results of the field study showed that Saudi shareholding companies applied international accounting standard no. (38) and Saudi accounting standard no (3) in respect of intangible assets on a measurement and recognition and presentation in statements and financial reports with very weak (little applied). Results of the field study and the application of these standards (IAS No. (38) and Saudi no (3)) by shareholders of Saudi company that these companies applied these standards in terms of intangible assets in relation to its measurement, recognition and presentation in statements and financial reports with very low degree (little application). That is due to fear of measurement objectivity and its presentation to these assets.
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1. Introduction:

The main objective of accounting is to provide useful information for users of financial reports and statements to make rational decisions, whether inside or outside the establishment (F.A.S.B, 1978, Par, 34). Those who Track the accounting thought during the past two decades, may observe an unprecedented boom shift towards an information and knowledge based on technological grounds. Nowadays there is investment in human resources, information technology, research and development, advertising and promotion play the essential role in maintaining the competitive position of establishment in market and its continuity in the future. as stated by (Gold fingr, 1997) to increase the economic value of the business and wealth, it is no longer depends only on its material production, but based on intangible assets as well.

In this framework, the establishment currently needs extra investment in intangible assets in which the future and continuity of the establishment depend on. However, in most cases, the budget of establishment is free of these assets because of the radical dealing to identify these assets and its evaluation.

The financial statements of the current establishment are unable to determine the financial status of the establishment and its position in the future, as they often do not contain an important and essential part of assets and intangible assets. Therefore, the clear evidence for this contradiction is the gaps between market value and book value of the business in the financial markets.

Lev and Zarowin (1999) identified that about 40% of the market value of American corporations are not included in the budget prepared by the book value of these companies. That has been justified by fact that the preparation of this budget is based on the principles and assumptions of conventional accounting. In other words, the traditional accounting model should be amended to reflect the tangible and intangible assets of the establishment to achieve the objective of the aforementioned accounting.

1.1 The research problem:

The problem is represented in determining the economic nature of intangible assets and the reflection of the value of these assets in Saudi shareholding companies that are part of the stock market, particularly under a Saudi accounting standard (3) accounting for intangible assets and IAS (38).

1.2 Objectives of study:

The research aims to achieve the following:

To identify the economic nature of intangibles and how it relates to credit and investment decision makers.

To analysis study of benchmark and intangible assets in accounting thought today.

To investigate the position of Saudi shareholding companies trade their shares in the stock exchange in the accounting treatment of intangible assets.

1.3 Hypotheses of the study

The study is based on the following assumptions:

1.Saudi shareholding companies that trade shares in stock market fully apply the IAS (38) and Saudi Arabia (No. 3) regarding measurement and evaluation of intangible assets.

2.Saudi shareholding companies that trade shares in Saudi stock market fully apply the IAS (38) and Saudi Arabia (No. 3) regarding the presentation and disclosure of intangible assets and financial reports.

1.4 Methodology:

The research follows the inductive approach to study and analyze the Saudi accounting standard (3) for intangible assets and IAS (38) and the position of the Saudi stock markets companies. To handle these, a case study is conducted to illustrate the position of Saudi Arabia environment in these processes and identify the most suitable to application at the time being.

1.5 Research Plan:

To achieve the objectives of the study, the research is divided into the following sections:

1. Introduction
2. The economic nature of intangibles and their relationship with investment decisions and credit.
3. Measuring intangible assets .
4. basis of intangible assets presentation in the financial statements.
5. The field study.
6. Conclusions and Recommendations

1.6 Limits of the research:

The study analyzes the intangible assets – both in terms of the economic nature and measurement and review. It focuses only on the aim of research in the fields of measurement of other tangible assets together with international accounting standards.

2. The Economic Nature of Intangible Assets and their relationship with Investment Decisions and Credit:

The economics of intangible assets in accounting context has been analyzed in-depth in the framework of economic and technological developments that the world currently witnessed. No agreement had been reached in many aspects such as its economic nature, definition and classifications and its impact on establishment and the accounting adjustment and measurement bases and its depreciation and others. The technological changes usually are analyzed through the trio (Schumpeterian, 1992) that divides the process of technological change into three consecutive phases:

1. Invention

It means conducting researches that generate new ideas.

2. Innovation

It means the development of new ideas into marketable products.

3. Promotion

It means disclosure and promotion of new products on the market.

Schum Peterian (1992) confirmed that the renewal is considered one of the fundamental stages or sources to configure new wealth at present rather than ever before. That means the institutions are supposed to provide growing sources for research and development to achieve higher levels of information and technological development to achieve higher competitive power. This was also confirmed by (Oslo, 1992) and) European Commissions (1996). Therefore, it is normal in advanced economies that have the intangible assets to obtain that rank of the permanent research and development. It became the attention of dealers of these economies' establishments, either users or managers and decision makers as well as researchers did in general. Modern technology also plays in the field of research and development and advertising for new products. It also expands the capabilities of an establishment to use the information available to maintain competitiveness. Therefore, those investments in intangible assets appear to be one of the key concerns of the business environment in the present time and in future. Despite the essential role of intangible assets in the economic performance of establishments, the limited statements do not appear most often on tangible assets only (Cohen and Levin thal, 1989). In addition, these purely economic visions do not create constant theoretical principles to clarify the more important in achieving profit in the future and maintain the competitive level of tangible assets and intangible assets (Mortensen Eustace and Moo Lan, 1997.

However, with review to specified tradition of all recognized economic entities, most of the investments in intangible assets related to future income and will not be shown in the actual budgets but referred to in the report on income. Moreover, as previously mentioned due to failure of traditional accounting systems to measure those assets and view budgets. Generally, features of the intangible assets are often not tangible physical establishment and are characterized by a high degree of uncertainty about future value. However, these properties are not unequivocally clear (Dr. Khalid Hijazi-2004-p. 151). Therefore, the lack of physical establishment for intangible assets is not sufficient to distinguish between tangible and intangible asset where accountants consider the bank deposits, accounts, customer accounts, and long-term investments a part of tangible assets despite the lack of physical establishment.

Many accountants (Khalid Hegazi - 2004 - P. 151) may see that the most important characteristics of tangible assets are uncertainty of the potential benefits obtained from the use of these assets. For example, a large number of these assets do not have specific productive age that known in advance. Moreover, the value of some of these assets may be subject to significant fluctuations. So that the value of the benefits expected to be obtained face strong competition, as well as some of these assets have no market value to benefit the business alone. Therefore, the process of timing of production expected benefits often face many complex problems, knowing that some of these problems may take in tangible assets, but not having the same degree of difficulty.

2.1 Definition of intangible assets:

The IAS (38) and Saudi accounting standard (3) defined the intangible assets as identified non-cash nature that has no physical establishment and maintained for use in the production or supply of goods or services, for rental to others, or for administrative purposes. It is called an asset when:

1) It is controlled by establishment due to past events.
2) The establishment is expected to get future economic profits from these assets.

2.2 Classification of intangible assets:

Intangible assets can be classified according to a set of properties, including:

2.2.1 Susceptibility for Excellence:

There are intangible assets are subject to be distinguished independently from establishment. In this respect, it is possible to distinguish clearly between intangible asset and goodwill if the asset is separable. The asset is considered separable if establishment could lease the future economic benefits or selling them or exchanged or distributed them Without jeopardizing future economic benefits, achieving from other assets used in the same revenue and acquisition activity e.g.:

1) Patents
2) Copyrights
3) Trade marks

2.2.2 Manner of Acquisitions:

The asset can be obtained individually or within a group of other assets or through merging with other establishment or may be discovered and developed in-house by the establishment itself. In some cases, an intangible asset can be acquired at no charge or for a valuable consideration through a government grant. This can happen when the government funds or allocates intangible assets for an establishment. This is similar to the right to land in the airport, or licenses to operate radio or television stations or other licenses, import shares or rights to access other helpful resources. In addition, an intangible asset acquisition can be by total or partial swapping with an intangible asset and dissimilar, or another asset. Moreover, the cost of the item is by the fair value of the asset received, which is formula to the fair value of the unneeded asset. This Adjusted with amount or equations were transferred (IAS (38, paragraph 34).

2.2.3 Operational lifetime:

A distinction can be made between intangible assets in terms of lifespan. It is found that the asset lifetime can be specified by-law, agreement or linked to economic factors. The IAS (38) defined the operational life of the intangible asset as follows:

1) The time during which the establishment uses the asset.
2) The number of units of production or similar units expected to be collected by establishment.

2.2.4 From marketing perspective:

Guilding & pike (1990) divided the intangible assets into four groups in terms of the extent of their ability to create a competitive advantage for the establishment. .In terms of value, it includes advertising, product development. The marketing assets includes registered brands, trade relations, and information systems and value manifestations such as (Image, goodwill, reasonable price (finally, marketing assets (such as competitive capabilities.

2.2.5 From a financial perspective:

Mortemesen and Lon nii, (1997) proposed the division of intangible assets into five groups:

1) Innovation Capital (R &D).
2) Intellectual capital (assets).
3) Good balance, flexibility, the capacity of work, affiliation, and implementing contractors.
4) (Licensing and Concession rights), advertising, broadcast, radio and commercial activities.
5) Capital in the market (brands- Trademarks- and goodwill)

It is obvious that the development of intangible assets in accounting system has not been studied sufficiently. The evidence for that is shown by disagreement on how to assess the value of these assets and its classification and display in statements, financial reports. This continued for more than a century. Lanning in 1914 and Canning 1929 claim that displaying information of intangible assets need to be the foundations of a theory to create its own standard. Hence, the intangible assets are a key hub in the prospective studies, which should include intangible debts such as burdens on the environment. In 1974, the (FASB)) R&D has demanded to identify all the costs of research and its development. It also demands the benefits of these researches, as the relationship between research and development costs and future returns are still nonspecific. where results showed a clear correlation between the costs of research and development and benefits, particularly in performance of the establishment.

After 26 years in developed economies, it has been confirmed that the investment in research and development costs and future improvements, play a major role in most industries, despite the different environment of 1974 and it is clear evidence of the investment in computer programs.

In spite of the fact that it was supposed that the companies and entities providing necessary allocations to invest in research R&D in their budgets as a basis to increase the value of establishment and increase the price of its shares in the stock exchange in the future.

So the Organization of computer software publishers in 1996 (FASB) called for attempts to induce the development of investment in research and development costs. Both (Lev Aboody, 1999) confirmed that the relationship between value and private investment programmes determined by the stock exchange prices so the debate about software deployment is not feasible.

There are clear differences between the various States on applications for intangible assets. This weakens the results of comparisons of financial statements and reports between countries. This confirms the studies and researches conducted in accounting thought. For example the study the lists and financial reports for sample 50 Australian company during the period from 1985 to 1989 and the handling of intangible assets, where the difference in methods and techniques for treatment of each company and from year to year (Fergusin Wines, 1993. (Gray Emenyonu, 1992) collected information and check statement and annual financial reports to number 26 of top companies in France and Germany and England. The study confirmed the clear differences between companies in dealing with goodwill, research and development costs, while English and German companies prefer not to view or show goodwill that 92% of French companies show goodwill in the financial statements.

2.3 The relationships of intangible assets with investment and credit decisions:

From the foregoing, it is clear from the intangible assets in most countries in the world cannot be displayed properly in terms of statements and financial reports, which clearly affect the value of the established and the price of their shares on the stock exchange. This is the rationale for an investor who focuses on realistic value of the establishment and their ability to create wealth in the future. This is confirmed by Lev, Sarath and Sougionnis that it is essential that the statements and financial reports to provide the establishment with more precise data on intangible assets which can be depend on as it has real role in achieving the profit and future wealth. Moreover, Lev confirmed the benefits of the financial reports for the investors to take the decisions. However, these decisions obviously were unsuccessful for many years due to the bad treatment of intangible assets.

The same results were reached by two studies conducted by Collins, May dew and Weiss, 1997 and Francis and Schipper, 1998 that showed the lack of good treatment for the intangible assets in financial reports and statements. This makes the investors, bank credit conferrers and company donators unconvinced because it does not present the position of the budget of establishment and it capabilities of producing future wealth subsequently achieving profits for the shareholders and reimburse the loans in installments. Therefore, the investors and creditors do not have records to indicate the real financial position for companies. Thus, the relation between establishment treatment for its intangible assets and decisions of investors and creditors is essential and perceptible in term of the effect of stating the real financial position of establishment and its future capacity.

3. Measuring the intangible assets:

3.1 The recognition of the intangible assets and their measurements:

The IAS (38) indicates that the recognition of the intangible assets occurs in the cases below:

1) When future economic benefits of assets are to flow in the organization.
2) If it is credible to measure asset cost so that the organization need to recognize the prospective benefits using supportive rational assumptions that represent set of economic situations and events that go on for the age of asset.

In addition, the asset is principally measured by the value of its cost. At this point, we need to make a distinction between:

3.1.1 The separate acquisition:

If acquisition of intangible asset takes place separately, its cost can be calculated accurately and credibly. This is possible when dealing in cash or cash assets. The cost of intangible asset includes the Purchase in addition to importation fees and refundable purchase taxes and other fees such as legal service fees that deducted to reach the exact cost. However, if intangible assets are Payment overdue the cost will be the same.

It is noted that if batch was postponed for an intangible asset beyond the usual payment costs are equivalent to the cash price, and recognize the difference between this amount and the total payments as interest expense over the period of credit unless it was capitalized. If an intangible asset is acquired in exchange for swaps with ownership rights to established reporting be the cost of the asset is the fair value of the equity instruments that are equivalent to the fair value of the asset.

3.1.2 Acquisition as part of the integration of businesses:

The intangible asset may be acquired in a process of incorporation of business, which means a possession. The cost of the intangible asset is based on fair value at the acquisition date. Moreover, here you need to use a personal judgment to determine whether the cost (fair value) of an intangible asset and possession of the process of integration of measurable business is reliable enough for the purpose of separate recognition. Price and availability listed in the active stock market is the best reliable measurement of fair value and appropriate market price is usually the current bid price. If the current prices available, provide the latest price similar basis, from which to estimate the fair value if there has not been a significant change in economic status between the transaction date and the date that the fair value of the asset.

If there is no active market for the asset, then the cost is the same amount, which was paid by the establishment at the acquisition date in a neutral process between informed and willing parties, based on the best information available. When determining this amount, the establishment takes into account the recent operations of similar assets. In addition, if it is not possible to make a reliable measurement for the cost – the fair value of an intangible asset-owned as part of the merger business. An acquisition does not recognize that asset as a separate intangible asset but is included in the goodwill.

3.1.3 Acquisition through a Government grant:

In some cases, it is possible to have an intangible asset acquisition at no cost or free; through a Government grant. This can happen when the Government financing or allocation of intangible assets of entities such as rights to land in the airport or licenses to run FM radio or TV or licenses, import quotas or rights to access other helpful resources. Under IAS 20, accounting of Government grants and disclosure of government assistance, the establishment may choose to recognize of the intangible asset and the grant amount for the fair value initially. If the establishment has chosen the non-recognition of the original principle amount of the fair value, the establishment recognizes the original principle amount of the highest under other treatment permitted by IAS 20, alongside any directly agreement attributable to preparing the asset for use.

3.1.4 Acquisition of intangible assets through interchanging asset:

An intangible asset can be acquired wholly or partially Exchange with non-tangible and other similar or another asset. The cost of this item is measured by the amount of the fair value of the asset received, which is equivalent to the fair value of the redundant asset. Modified by the amount in cash or cash equivalents has been transferred.

In addition, an intangible asset can be acquired by swapping with another of the similar use in the same line of work and has a similar fair value. An intangible asset can be sold for acquisition interest in a similar origin as well. In both cases, because the revenue process is incomplete, the gain or loss is no recognized. Instead, the cost of the new asset is the amount of the original unneeded asset. However, the fair value of the asset received may provide evidence of the value of the asset reduction loss that has been reluctant, and in these circumstances is the recognition of reduction loss and unneeded asset value. Then amount is allocated after the loss of the asset.

3.2 Fundamentals of intangible assets:

The most important elements of internationally recognized and measured intangible assets:

3.2.1 Patents:

In many countries of the world, the governments give patents that enable the holder Exclusive Right in using, producing and selling a commodity for a period determined by the laws of these countries (17 years in United States) without any interventions or violations by others. If an establishment has bought a patent, the price represents the cost of the intangible asset plus all other expenses necessary for the registration and disclosure of the patent, which include lawyers ' fees and other legal expenses to defend against a claim of others. Some claim that the establishment has no right to own patents. This proves the eligibility of the establishment to own patents.

As for the expenditure incurred by establishment to discover a new invention or development of an industrial process, it is not considered part of the cost of a patent. However, it is treated as an expense on revenues of the year in which it was spent. In this case, the costs of patents include registration and publicity expenses only. In addition, amortization of patents during the statutory period or expected years of service, whichever is less productive with baseline and annual consumption amount are loaded revenues this year, with the parent account is credited with the value of the per diem. If amendments were made to the goods or the industrial method under the patents during the productivity or use, these adjustments increase the useful life of the asset and it can modify the useful life to more than the legal age.

3.2.2Copyrights:

Copyright is a legal exclusive right, enacted by most governments to safeguard the rights of the authors and creative artists in various literary and scientific works so that they can disseminate and sell their production. The holder also has the right to sell and convey their rights to others, which include the cost of copyright and registration and publicity. This cost does not include fees for the preparation and production of the goods if the establishment did this by itself. The copyright is terminated during the statutory period or expected years of service (select ' F..S.P ' 40 years as a maximum period of copyright) consumption, given the uncertainty of the useful life of the copyright. Number of accountants and executives preferred the termination of the asset during a short period.

3.2.3 Trademarks (Trade names):

Trademarks often remain the right to use a particular brand with its original as long as it is used in economic activity, regardless of registration official bodies. If registered, it would be for a limited renewable period. Therefore, trademarks are considered intangible and unspecified age asset. However, the American accountants prefer this asset consumption during a period of not more than 40 years. the cost of trademarks include the purchase price, If the design and registration of the mark took place in the judiciary. This cost includes all costs necessary to complete the legal procedures such as lawyers ' fees and registration fees and the cost of preparation of filling out forms.

3.2.4 Establishment and organization expenses:

The costs of establishing and organizing an establishment include all expenses related to the formation of the business, such as legal expenses and advertising for sale of shares of the company and any fees or charges paid to investment banks for banking services and financial investments for the creation and issuance of shares. Previously these were considered a capital expense appears in the statement of financial position as an intangible asset similar to life age of the organization. The establishment was consuming expenses during a short-term often not more than five years, however, with the release of IAS (38) on intangible assets and Saudi accounting standard (3) that these expenses were not recognized as an intangible asset and should be recognized as and expense immediately spent and fully loaded operating accounts. Other examples of such expenses that Recognized as an expense immediately produced:-

Research expenses:

Costs associated with opening a new activity or to start new operations or to start production of new products and known costs prior to the commencement of activity. -Expenditure on training activities.

Expenditures on advertising and promotion:

Expenses related to the relocation or reorganization of all or part of the Establishment.

Business losses should be considered which might result from economic activity of the establishment during the first years of its composition. They are not considered part of the expenses of the establishment and its organization. It should also be be received within the elements of intellectual property rights, such as the inability to calculate the surplus retained earnings, rather than as an intangible asset (for receiving benefit is not available to these losses). Complex American accounting principles for establishment oblige the institutions to disclose the nature of these losses and indicate that these losses were in accordance with accepted accounting principles.

3.2.5 Goodwill:

3.2.5.1 The nature of goodwill:

Goodwill is regarded as one of its kind. it is different from customer accounts, inventory, and patents that can be bought and traded on the markets because the goodwill of the establishment cannot be acquired or traded without getting hold of the establishment itself. Sometimes we find that the market value of the establishment is more than the total market value of the net assets.

What are the factors that have led to high market value? Several factors lead to an increase of the market value of the total market value of net assets in the statement of financial position. For example, management efficiency in operation and management of the establishment that makes establishment capable of competing with and against economic fluctuations, as well as production quality and good relationship between the establishment and its customers and suppliers. The site establishment has that role too. These factors and other essential factors lead to creating positive goodwill.

Goodwill registry value is created when purchasing a constant (Going-Concern) establishment that its economic activity is as an integrated unit. This Goodwill is one of the intangible assets that are acquired with the purchase of the business, and you must estimate, calendar, or register any value of Goodwill of the establishment and resulting high profitability and increase economic efficiency, and because of the unclear relationship between the future benefits and the cost of the original establishment.

3.2.5.2 Amortization of Goodwill 94:

There are three suggestions for Amortization of goodwill:

1) Removing the account of goodwill establishment immediately after completing the purchase of the business, relating it at the expense of ' retained earnings, because goodwill-parent is dependent like the rest of the establishment such as the assets inventory and customer accounts and land patents. Supporters of this view justified that because procedure has been followed by issue of goodwill that created within establishment itself (so that the charging of expenditures relating to create international goodwill on expenses). Therefore, purchased goodwill should be treated in a manner very similar to what is practiced in the first case. The supporters of this view suggest the Consumption current expenses to maintain the goodwill of establishment. This affects the value of the annual income. Finally, the difficulty of estimating the useful life expectancy of services or benefits of goodwill in income above normal production is one of the most important factors that support fully removing goodwill upon purchase.
2) Goodwill should not be consumed and retain to the entire value of the assets at the time of removal by the establishment when found ineffective in achieving extraordinary income. Advocates of this method say as long as the establishment bears annually maintenance of goodwill, annual income should not be over expenditures, and when not feasible, you must remove the asset fully due to the lack of potential future benefit.
3) Consumption of goodwill during life limit to the premise that the benefit of goodwill diminished over time, so you should not burden the annual revenue value of consumption of goodwill during the current period resulting from services and lead to meet annual income.

F.AS.B and Saudi accounting standard no (3) Oblige to use the following:

a. Goodwill account should not be removed from the assets immediately after purchasing them.
b. The value of goodwill during the years of service should be used till exceed 40 years.
c. If the goodwill proved too futile to provide benefits to the establishment and then the lack of value of the asset, you must remove the goodwill account immediately from assets and full book value will be on current year income.
d. Fix installment" methods should be use to consume goodwill, unless special circumstances justify the use of other methods, with annual consumption expenses as part of the operating expenses. The amount of annual consumption should be calculated as explained in the financial statements if the amount remains relatively high.

3.2.5.3 Negative Goodwill:

Goodwill emerges when negative market values of total independent net assets exceed the purchase price of the establishment. This situation produced when there is an urge on the part of the seller to get rid of the economic activity of the establishment without effort at the disposal of each asset individually. This results in credit balance of goodwill of establishment. It also results in additional income. American financial accounting principles oblige to follow procedures in the event of a credit of goodwill:

a. The value of negative goodwill should be distributed to non-current assets with the exception of long-term investments to reduce the market value of these assets based on the value of each asset in relation to total assets.
b. When these assets reach to zero, the balance of the account should be recorded as "negative goodwill" as a credited to ' long-term liabilities ' and before ' property rights ' that are consumed annually for more than 40 years.
c. The duration and the consumption method of the account balance should be revealed.

3.3 The subsequent Measurement of the initial recognition of intangible assets

Following initial recognition, the intangible asset should be registered at cost less accumulated depreciation and any accumulated losses affect low value. International accounting standard no. (38) allows alternative treatment, that after initial recognition, intangible asset must be registered by the amount was assessed as fair value at the date of the revaluation subtracted by accumulated depreciation from any subsequent accumulated losses and depreciation, For the purposes of reassessment under this standard, the fair value should be determined by reference to an active market. In addition, revaluations should be regularly enough so that no different amount that would be determined by using fair value at the balance sheet date. Moreover, the amount of depreciation for intangible asset should be customized on a systematic basis over the best estimate of its useful life, and there is a rebuttable presumption that the useful life of the intangible asset will not exceed 20 years from the date of origin, and depreciation must begin when the asset is available for use.

And when the consumption of the future economic benefits embodied in an intangible asset over time are reducing the amount of the asset to show such depreciation is achieved by systematic cost reduction or amount of specific origin reassessed from the residual value as an expense over the useful life of the asset. Depreciation is recognized whether or not increased. For example in the fair value of the asset or the amount recoverable, you should consider several factors when determining the useful life of an intangible asset is:

1) Establishment uses expected asset, and whether the asset can be, manage effectively by another team.
2) Typical life cycles product of the asset and general information for estimating useful ages like species of asset are used in a similar way.
3) Technical usage or other types are null.
4) The stability of the industry where asset is used and changes in market demand of products or services from the asset.
5) Actions expected from competitors or potential competitors.
6) The level of maintenance expenses required to obtain the future economic benefits from the asset, and the company's ability and intent to reach that level.
7) The asset control and legal restrictions or similar to the original such as the expiry dates of leases are needed.
8) If the productive time of the asset is based on the productive time of the asset of the business.

In addition, depreciation method should show the pattern of establishment for the economic benefits. If it is not possible to determine the reliably style, it should use a consistent pattern. Moreover, it should be recognized that the depreciation amount for each period as an expense unless allowed or another international accounting standard requires that you enter the amount of another asset.

4.basis of intangible assets presentation in the financial statements:

The base of viewing intangible assets is similar to fixed assets in particular, such as buildings, machinery, equipment, and furniture. Saudi accounting standard no. (3) obliged the financial statements to disclose the following for each category of intangible assets to be separate internally produced intangible assets and other intangible assets:

1. Lifespan or consumption rates used.
2. The method of consumption.
3. The depreciation method used.
4. Total book value and consumption (including losses resulting from lack of value (future economic benefits) in both the beginning and end of the period.
5. The item of income statement included in consumption of intangible assets.
6. settlement of the book amount at the beginning and end of the period showing:

a. Additions to intangible asset with division of internally generated additions and additions resulting from the asset collection.
b. Exploitation and disposal of assets had terminated.
c. Losses resulting from lack of value that are recognized in the income statement during the period specified in accordance with the accounting standard in decrease asset values.
d. The reply to the statement of income resulting from the lack of value that had previously been charged to prior period revenue lists under the special accounting standard in asset value.
e. Amortization recognized during the period.
f. The net rate differentials resulting from the translation of financial statements for a foreign entity.
g. Other changes in book values during the period.

They should also disclose financial statements:

1. The Reasons for testing the lifespan age of the intangible asset will not exceed 20 years from the date of use of the asset and if intangible asset consumption in more than 20 years ago, when disclosure of this establishment determines the causes (factors) that played an influential role in determining the useful life of the asset.
2. Describing of tangible asset, book value and the remaining consumption individually when this important and influential asset for

the financial statements of the establishment as a whole.

3. Real presence and the book value of the intangible assets that there are no restrictions on ownership rights as well as the book value of intangible assets pledged as security for liabilities.
4. The value of links for the acquisition of intangible assets.
5. The total amount that has been spent on research and development had been recognized as an expense during the period.

It is commonly known that after consumption of intangible assets, the establishment include low value (1 riyal) for the asset in the budget rather than remove the account from the accounting records, and in some facilities to disclose the existence and continuation of use.

5. Field study of the environment of Saudi Arabia:

The main objective of the research is to explore the reality of application (environment) about the suitability of the IAS (38) and IAS (3) in respect of intangible assets, especially for companies that trade stock in the Saudi market for stock exchange and accounting treatment of such assets, it was necessary to conduct a field study as follows:

5.1 Hypotheses field study:

The study is based on the following hypotheses:

The first hypothesis:

Saudi shareholding companies trade their shares in the Saudi Stock Exchange fully apply the IAS (38) and Saudi Arabia (No. 3) regarding assessment and evaluation of intangible assets.

The second hypothesis:

Saudi shareholding companies trade their shares in the Saudi market Stock Exchange apply according to IAS (38) and Saudi Arabia (No. 3) regarding the presentation and disclosure of intangible assets and financial reports.

5.2 Data needed to choose hypotheses:

In order to select, the previous research assumptions we need to obtain a set of field data:

a. Data on methods of assessment and measuring intangible assets, which currently applied in Saudi shareholding companies. How efficient these methods to achieve the goals of users lists and financial reports (investors/lenders).
b. Data on viewing and disclosure methods currently applied in Saudi shareholding companies and the efficacy of these methods in achieving the demands of users' statements and financial reports issued by these companies (investors, lenders).

5.3 The population of the research:

To achieve the objectives of the research, the groups that study and analyze the statements and reports of Saudi shareholding companies for investment and credit identify the population. It is represented in accountants, auditors, investment analysts in funds and investment credit and banks, as well as auditors at the General Auditing chamber.

5.4 Sample of population:

A number of 160-controlled groups have been chosen as a sample of the population. The selection of these items was due to the following criteria:

1) A sample should represent the research population who are specialists in financial statement analysis and reports of Saudi shareholding companies regarding investment decisions and credit as follows:

Accountants and auditors in accounting offices
investment Analysts in companies and investment fund
investment Analysts and credit in Banks
Auditors in General Auditing

2) These items should provide the adequate data required for research. The researcher found out that through exploratory visits.

5.5 Methods of Data Collection:

The researcher depended on two methods in data collection:

Survey method:

A checklist has been designed to survey the ideas of the respondents to obtain the data needed to conduct the research. The questions of the study cover the aspects of study according to their purposes.

The table below (1) demonstrates the number of the checklists and the ones that has been analyzed.

Table (1) The number of the checklists and the analyzed ones

Checklists	Returned	Non retuned	Analyzed	Percentage
160	144	16	144	90%

Interview:

The survey method was supported by interviews with the sample to identify some of the elements and information not disclosed by the survey method.

5.6 Data processing and analysis:

For the purpose of data analysis and test the validity of the hypothesis, the following approach was used:

1) The answers of the surveyed questions are scaled as shown in the table below.

Table (2)The scales of Answers

Answers	Scale
Never applied	1
Little applied	2

Average applied	3
Applied	4
Completely applied	5

2) Put the average responses to survey questions rather than rely on the absolute value of weights identified by the survey, the average range is positioned so that it does not deviate more than 0.5% of the value of each of the given weight

Table (3) demonstrates the relative weights based on average of responses

Responses	Range
Never Applied	1 and less than 1.5
Little applied	1.5 and less than 2.5
Average Applied	2.5 and less than 3.5
Applied	3.5 and less than 4.5
Fully applied	4.5 and less than 5

When we analyze the data, we depend on calculating the average of responses on the survey through the following formula:

$$\frac{\sum XY}{\sum Y}$$

Where: X = the weights has been identified for answers (1, 2, 3, 4, 5)

Y =frequencies

5.7 Analysis of the responses and reaching the field study results:

5.7.1 Testing the first hypothesis

The Saudi shareholding companies fully apply the international accounting standard number (38) and Saudi Arabia (No.3) regarding measurement and evaluation of intangible assets.

As previously mentioned, the validity of this hypothesis is known through answers to sample questions from the survey list (appendix 1). Table (4) presents statement of the views of the sample on companies' application for international accounting standard no. (38) and Saudi Arabia (No. 3) concerning the measurement and valuation of intangible asset:

Table (4): A statement of the views of sample on the Saudi shareholding companies of IAS (38) and Saudi Arabia (3) with respect to measurement and evaluation

Category	Research result
Fully Applied	-
Applied	8
Averaged applied	12
Little Applied	28
Never Applied	24
Total	72
Average	201
Class	Little Applied

Thus, the reality of application of the IAS (38) and Saudi Arabia (3) by Saudi shareholding companies with regard to the evaluating and assessing intangible assets and the recognition was weak in terms of little application.

5.7.2 Testing the second hypothesis

Saudi shareholding companies trade their shares in the Saudi stock market and fully apply the IAS (38) and Saudi Arabia (No. 3) regarding the presentation and disclosure of intangible assets and financial reports. As stated above this is testing the validity of the hypothesis by analyzing the responses of the participants (appendix 1).

Table No. (5) Demonstrates the views of participants and the extent of the application of shareholding companies to international accounting standard no. (38) and Saudi Arabia (No. 3) regarding the presentation and disclosure of intangible assets and financial reports.

Table(5):The views of sample on the Saudi shareholding companies of IAS (38) and Saudi Arabia (No. 3) regarding the presentation and disclosure.

Category	Research result
Fully Applied	-
Applied	6
Averaged applied	10
Little Applied	30
Never Applied	26
Total	72
Average	209
Class	Little Applied

The application of the international accounting standard number (38) and Saudi Arabia (No. 3) regarding the presentation and disclosure of intangible assets in Saudi shareholding companies is considered weak and so a little application. This can mainly be due to lack of accuracy in the recognition and measurement of these assets. So the lack of objectivity in making Saudi shareholding companies reluctant to show their financial reports though this is confirmed by previous procedures of the research, which shows vulnerability of these lists' transparent and objectivity.

6.Results and recommendations:

Based on the abovementioned analysis of the study, intangible assets had been identified and its fundamental role in determining the true value of the business and the position of the Saudi environment had been revealed. The researcher reached the following results:-

1. 1.Although the primary role of intangible assets in the economic performance of entities and thus these reports fail to identify the real centers of these entities. This due to the failure of traditional accounting to measure those assets and supply budgets.

2. 2.There are clear differences between the various States on applications of intangible assets and thus weaken the results of comparisons of statements and financial reports.
3. 3. The improper treatment of the intangible assets and financial reports makes investors and donors of credit hesitate to deal with because it is considered the financial status of the establishment and source of its future wealth.
4. 4.The international accounting standard number (38) and Saudi Arabia (3) indicates the bases of measuring intangible assets, its presentation and disclosure in financial reports and statements.
5. 5.It is very clear that the survey found that Saudi shareholding companies apply the international accounting standard no. (38) and Saudi Arabia standard (3) in respect of intangible assets in terms of it's a measurement and recognition and presentation in statements and financial reports which has been proved to be very weak (little applied).

Accordingly, the researcher recommends the need to adhere to international accounting standard no. application (38) and Saudi Arabia (3) in respect of measurement and disclosure of intangible assets so that the Saudi shareholding companies could have the trust of investors and donors of credit from bankers and loan companies. The researcher observes that the primary burden in this regard is on the managers and Auditors of these companies. Therefore, companies should comply with the Saudi accounting standard (3) in respect of intangible assets measurement and disclosure.

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