Appendix 3.04.13 Note on intangibles

Normally we have referred in previous chapters to the high tech companies where the P/E ratio is astronomical. The leading market capitalised companies all have or have had this problem whereby the market capitalisation is many times that of any earnings or potential earnings future. These include Apple, Alphabet (Google), Microsoft, Amazon and Facebook. We have already cited Tesla as bearing no relation to potential earnings – as currently organised and with their current production systems – though earlier problems seem to be have been solved. Three examples (from many) of tech-companies in mid-2017 having huge price earnings ratios are: Yelp, like yellow pages (P/E of around 430), Salesforce, arguable the number one customer relationship management system (P/E of around 465), and GoDaddy, an internet domain registering and web hosting company (P/E around 860). There a host of smaller and tiny companies including some that might be classified as recent start-ups. Of course, some of these are bubble companies with a collapsing value. However, the big ones are now well established and near-monopolies in their own sphere.

The three critical attributes of an intangible asset are:

1) Identifiability control (power to obtain benefits from the asset) future economic benefits (such as revenues or reduced future costs)
2) Identifiability: an intangible asset is identifiable when it: [IAS 38.12]
3) And is separable (capable of being separated and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract) or arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangibles can be acquired by:

- Separate purchase as part of a business combination by a government grant by exchange of assets by self-creation (internal generation)
- Recognition with recognition criteria defined by IAS 38 which requires an entity to recognise an intangible asset, whether purchased or self-created (at cost) if, and only if: [IAS 38.21]it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and the cost of the asset can be measured reliably.

This requirement applies whether an intangible asset is acquired externally or generated internally. IAS 38 includes additional recognition criteria for internally generated intangible assets.

The probability of future economic benefits must be based on reasonable and supportable assumptions about conditions that will exist over the life of the asset. [IAS 38.22] The probability recognition criterion is always considered to be satisfied for intangible assets that are acquired separately or in a business combination. [IAS 38.33].

So none of this helps us with the enormous differences between reported profits and market capitalisation. into greater significance.