

FACTSHEET

The Marketer's guide to IFRS3

The subject of accountancy can be quite daunting at times for the unacquainted but the introduction of new accounting standards gives marketers the chance to understand the financial implications of their marketing decisions as well as educate accountants in the importance of marketing to create and sustain business value.

What is IFRS3?

IFRS3 (International Financial Reporting Standards 3 on Business Combinations) was introduced in January 2005 and requires all acquired intangible and tangible assets to be recognised on the balance sheet and fair valued. The accounting standards also state that intangible assets which have indefinite lives need to be tested annually for impairment i.e. a loss in value.

What are intangible and tangible assets?

Intangible assets include brands, trademarks, patents, licenses and franchise agreements and are normally classed as items that cannot be physically touched but bring monetary value to the business. Tangible assets are normally items you can physically touch such as land, buildings and equipment.

What is fair value?

Fair value is the amount at which an asset could be bought or sold in a current transaction between willing parties, other than in liquidation.

How does IFRS3 affect me?

Due to the need to identify and value all acquired intangible assets, marketers are now more accountable for the performance of their brands, which influence the profits and value of the business. For example, if you had a brand with an indefinite life i.e. one that does not have a limited life span, and it performed badly in one year, your accountant might have to depreciate or assign impairment charges that would devalue the brand, which in turn would affect the profits for that financial year. Through a better understanding of your own brands' value, you will be able to verify and justify your marketing decisions to the board with a more authoritative and influential voice.

What can I do to understand the true value of my brand/s?

Conducting a brand valuation enables you to understand the key variables that enhance the value of your brand to give you the best returns of investment. A brand valuation consists of a robust analysis of the market, the customer and competitor which not only helps to evaluate your marketing and brand strategies but also to develop or rationalise your existing brand portfolio.

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