

BULETIN

UiTM CAWANGAN NEGERI SEMBILAN
KAMPUS SEREMBAN
EDISI 10 2025

F
P
N
S
3



fpnuitmn9s3



<https://encr.pw/FakultiPerakaunanS3>

An Accounting Perspective on Intellectual Capital

Amariah Hanum Hussin^{1,2}, Haslina Hassan² and Salwa Muda¹

¹ Faculty of Accountancy, Universiti Teknologi MARA (UiTM), Cawangan Negeri Sembilan, Kampus Seremban,

² Business School, Universiti Kuala Lumpur (UniKL)

The accounting profession is responsible for supplying stakeholders with reliable information regarding the sources of a company's value. In the present knowledge-driven economy, intellectual capital (IC) is increasingly recognised as a significant determinant of firm competitiveness and performance (Charles & Yahaya, 2024; Mathews & Ligori, 2021; Mubarik et al., 2022; Paoloni et al., 2023). Nevertheless, despite its importance, IC is often insufficiently represented in conventional financial reporting, creating pressure on accountants to find better ways to disclose and communicate the contribution of IC (Lotfi et al., 2022; Moghadam et al., 2023).



The asset classification framework introduced by Tayles et al. (2002) emphasises the growing role of IC by categorising organisational resources into tangible, financial, and intangible assets. Intangible assets are divided into intellectual property rights (patents, copyrights, and trademarks) and other intellectual assets, including human, relational, and structural capital. While certain intangibles can be formally recognised in accounting records, crucial components of IC, such as employee expertise, customer relationships, and organisational culture, are excluded.

Although absent from balance sheets, these factors foster innovation, sustain competitive advantage, and ensure long-term viability. The model illustrates why organisations must acknowledge and strategically manage IC as a key driver of value creation in a knowledge-based economy. A persistent challenge lies in the discrepancy between market and book value, highlighting the extent of unrecorded IC within firms (Garanina et al., 2021; Ma & Zhang, 2023). This “hidden value” is attributed to intangible resources such as employee knowledge, skills, and client relationships (Ma & Zhang, 2023; Rabaya et al., 2018, 2020).

Over the years, numerous methods have been suggested to evaluate IC, underlining its strategic importance. However, IC measurement remains problematic due to definitional ambiguity, its intangible nature, and the lack of standardised reporting frameworks (Rabaya et al., 2020; Thien & Hung, 2023). No single universally accepted framework for IC measurement and disclosure exists (Bellucci et al., 2021).

In their literature review, Garanina et al. (2021) identify four persistent challenges in IC accounting.

1. Lack of complete harmonisation between IAS/IFRS and GAAP.
2. Limited guidance in IAS 38 and IFRS 3 on recognition and measurement of IC.
3. Inconsistent terminology across disciplines and regions (e.g., *intellectual capital* in Europe vs. *intangible assets* in North America).
4. Expanded research scope: from firm-level performance to broader societal impacts.

These challenges are equally relevant in Malaysia. The Malaysian Accounting Standards Board (MASB) adopted the Malaysian Financial Reporting Standards (MFRS), which are aligned with IFRS (Rabaya et al., 2020). For example, MFRS 139, which deals with the recognition and measurement of financial instruments, was introduced in 2010 but faced delays due to valuation complexities, particularly in finance (Guay et al., 2016). Rabaya et al. (2020) argue that MFRS 139 influences IC by enhancing the reliability of financial information, improving transparency, and supporting better decision-making. Past studies also indicate that stronger accounting standards enhance disclosure and transparency, foster market confidence, and increase price efficiency (Albertini et al., 2021; Guay et al., 2016).

High-quality reporting directly improves managerial decision-making (Gardi et al., 2021). In this respect, implementing MFRS 139 strengthens Malaysia’s reporting landscape and indirectly improves the management of IC (Rabaya et al., 2020). Through sound financial governance and transparent reporting, organisations can better harness their intellectual resources, ultimately improving overall outcomes.

In summary, IC is a critical value creation source, yet it remains inadequately represented in traditional accounting practices. The market–book value gap, the limited scope of goodwill, and the absence of standardised disclosure highlight ongoing shortcomings in the accounting treatment of IC. Nevertheless, progress in international and Malaysian standards such as IAS, IFRS, and MFRS offers pathways to greater transparency and stronger integration with strategic management approaches. Aligning reliable financial reporting with performance-oriented perspectives enables organisations, particularly in Malaysia, to more effectively utilise IC as a foundation for sustainable growth and resilience.

References

- Albertini, E., Berger-Remy, F., Lefrancq, S., Morgana, L., Petković, M., & Walliser, E. (2021). Voluntary disclosure and intellectual capital: how CEOs mobilise discretionary accounting narratives to account for value creation stemming from intellectual capital. *Journal of Applied Accounting Research*, 22(4), 687–705.
- Bellucci, M., Marzi, G., Orlando, B., & Ciampi, F. (2021). Journal of Intellectual Capital: a review of emerging themes and future trends. *Journal of Intellectual Capital*, 22(4), 744–767. <https://doi.org/10.1108/JIC-10-2019-0239>
- Charles, Y., & Yahaya, O. A. (2024). The value relevance of intellectual capital. *Journal of Intellectual Capital*, 25(2), 233–254.
- Garanina, T., Hussinki, H., & Dumay, J. (2021). Accounting for intangibles and intellectual capital: a literature review from 2000 to 2020. *Accounting and Finance*, 61(4), 5111–5140. <https://doi.org/10.1111/acfi.12751>
- Gardi, B., Hamza, P. A., Sabir, B. Y., Aziz, H. M., Sorguli, S., Abdullah, N. N., & Al-Kake, F. R. A. (2021). Investigating the effects of financial accounting reports on managerial decision making in small and medium-sized enterprises. *Turkish Journal of Computer and Mathematics Education*, 12(10), 2134–2142.
- Guay, W., Samuels, D., & Taylor, D. (2016). Guiding through the fog: Financial statement complexity and voluntary disclosure. *Journal of Accounting and Economics*, 62(2–3), 234–269.
- Lotfi, A., Salehi, M., & Lari Dashtbayaz, M. (2022). The effect of intellectual capital on fraud in financial statements. *The TQM Journal*, 34(4), 651–674.
- Ma, S., & Zhang, W. (2023). How to improve IFRS for intangible assets? A milestone approach. *China Journal of Accounting Research*, 16(1), 100289. <https://doi.org/10.1016/J.CJAR.2022.100289>
- Mathews, J., & Ligor, A. A. (2021). Cultivating Intellectual Capital for Competitive Advantage. Available at SSRN 3826080.
- Moghadam, H. M., Salehi, M., & Hajiha, Z. (2023). The relationship between intellectual capital and financial statements readability: The role of management characteristics. *Journal of Facilities Management*, 21(2), 221–241.
- Mubarik, M. S., Bontis, N., Mubarik, M., & Mahmood, T. (2022). Intellectual capital and supply chain resilience. *Journal of Intellectual Capital*, 23(3), 713–738.
- Rabaya, A. J. R., Saleh, N. M., & Hamzah, N. (2020). Intellectual capital performance and firm value: the effect of MFRS 139. *The South East Asian Journal of Management*, 14(1), 1.
- Tayles, M., Bramley, A., Adshead, N., & Farr, J. (2002). Dealing with the management of intellectual capital: the potential role of strategic management accounting. *Accounting, Auditing & Accountability Journal*, 15(2), 251–267.
- Thien, T. H., & Hung, N. X. (2023). Intellectual capital and investment efficiency: The mediating role of strategic management accounting practices. *Cogent Business and Management*, 10(2). <https://doi.org/10.1080/23311975.2023.2207879>

