EUROPEAN AND INTERNATIONAL APPROACH ON THE ACCOUNTING FOR INTANGIBLE ASSETS

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Abstract

The development of the competitiveness hasn't been a priority for Romanian companies until the moment of the economical crisis. The difference can be seen in quality, services, innovation, image, knowledge, the approach to information, culture, etc. The companies that manage to differentiate from the others will resist in time and the economic advantage is made through intangible assets. The assessment of the intangible assets is the real description of the company wealth which is very well known to all balance sheet users, because it contains their fair value.

Keywords: intangible assets, *assessment, reassessment, recognition, fair value*

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1. Theoretical foundations on the recognition of intangible assets

1.1. Recognition of intangible assets from the perspective of the international accounting referential

After a long period of debates, the international accounting referential approached, for the first time and in detail, the accounting of intangible assets, by IAS 38, enacted in 1998, setting out the criteria for recognition, basis for evaluation and reporting requirements for these categories of property.
The recognition of intangible assets requires the observance of the following key criteria:

- identifiable character of intangible assets;
- possibility to hold control over the use of these assets;
- Their ability to generate future economic benefits
- Reliable assessment

The ***identifiable character*** of an intangible asset requires that it be "distinguished from goodwill" (B. Epstein, 2005, p.277). The identifiability requirement is met if the intangible asset is *separable* (IFRS, 2009, p.1993) (i.e. it can be sold, transferred, authorized, leased or exchanged and the future benefits attributable to this asset can be distributed without depriving the company of the future economic benefits from other assets used in the same activities). At the same time, the intangible asset must arise from contractual or other legal rights, regardless of whether

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those rights are transferable or separable from the entity or from other rights and obligations.

The identifiable intangible assets include patents, copyrights, licenses, customer lists, brand names, software, marketing rights and specialized know-how. The feature that these elements have in common is the lack of material substance, physical and a useful lifespan of more than one year (definite or indefinite).

The ***control*** (B. Epstein, 2005, p.278) assumes the entity's ability to draw benefits, future economic advantages arising from the involvement of these assets and the power to restrict the access of third parties to those benefits. Usually, entities obtain or protect such control capacity by means of legal rights (copyrights, patents, restrictions in their trade agreements or legal obligations of employees to maintain confidentiality). In the absence of such rights, the entity cannot usually have enough control over the economic advantages expected by teams of professionals and training programs or from specific technical or management skills. Also, in the absence of rights to enable it to protect or control its relations with customers or their loyalty, the entity does not usually have sufficient control on the economic benefits arising from customer loyalty and relations with them. "A balanced company is where the R & D department and the marketing department share their responsibility to achieve a successful market-oriented innovation" (Ph. Kotler, 2005, p.905). In practice, however, the interdepartmental relations often characterized by rivalry and mutual distrust, cause many favorable occasions to fail. Creating a basis for constructive cooperation can only be in the interest of the company, realizing that each function carries a potential impact on customer satisfaction and thus might attract economic benefits for the company.

Future economic advantages (benefits) (B. Epstein, 2005, p.279), that may be associated with an intangible asset, may take the form of income from sales of products or services, savings, cost reductions or other economic benefits resulting from the use of the intangible asset in the company. In general, however, the recognition of an intangible asset is subject to its likely economic benefits to belong to the company. The evaluation of the likelihood of future economic benefits must be made based on rational calculations that represent the best estimate for the set of economic conditions existing during the life of the asset. The use of professional reasoning to assess the safety degree associated to the accomplishment of future economic advantages attributable to the intangible asset is based on available evidence at the time of the initial recognition, giving priority to external evidence. Using its fair value, determined primarily by reference to an active market or, failing that, by using the best available information is to determine the present value of cash flow, adjusted according to its likelihood and the value of money in time. Even on a low probability of occurrence of cash flow, the fair value is considered to be determined, and the asset will be recognized. At the level of the international referential, more and more views converge towards the indication of probability when evaluating an asset, instead of using it as criterion of the recognition threshold, which will lead to the adjustment of the general framework.

The reliable assessment of intangible assets is subject to their achievement, thus the initial assessment is made based on their procurement cost.
Categories of intangible assets such as patents, drawings, lists of customers, generated at the internal level, may be difficult to assess and which should comply with the criteria for their recognition as assets distinct from the goodwill, generated at internal level. Failure to recognize them as assets is justified by the application of the principle of prudence, the impossibility to capitalize costs being rather associated to the uncertainty of the assessment methods and not the volatile nature of their value.

1.2. Recognition of intangible assets as regards OMFP 3055/2009 for the approval of the accounting regulations complying with European directives

The regulation on intangible assets is provided in OMFP 3055/2009, Section 8, where the intangible asset is defined as “an identifiable, non-financial asset, without material support and held to be used in the production process or for the supply of goods and services, to be rented to third parties or for administrative purposes.” (OMFP 3055/2009)

An intangible asset meets the criterion of being identifiable when:

a) It is separable, namely it can be separated or divided from the entity and sold, transferred, authorized, rented or exchanged, either individually or together with an appropriate contract, an identifiable assets or identifiable debt; or
b) It arises from contractual rights or other legal issue, regardless of the fact if such rights are transferable or separable from the entity or other rights and obligations.

An entity controls an intangible asset if the entity can obtain future economic benefits from such resource and it can restrict access to such benefits.

The future economic benefits arising from an intangible asset may include the income from the sale of products or services, cost savings or other benefits resulting from the use of the asset by the entity.

Certain intangible assets may be preserved in or on a physical object, such as a CD ROM (e.g. software), legal documentation (e.g. license or patent) or on film. To determine if an intangible asset, which incorporates both tangible and intangible elements, should be handled as tangible asset or intangible asset, an entity analyzes which element is more important. For instance, the software for a computerized machine, which cannot operate without such specific software, is included in the value of such tangible asset. This also applies for a computer’s software. When the software is not part of the respective hardware, that software is considered intangible asset.

Lists of customers are not classified as intangible asset.

An intangible asset must be listed in the balance sheet if it is thought that it will generate economic benefits for the company and its cost can be reliably evaluated.

To determine if an intangible asset, generated at internal level, meets the recognition criteria, an entity classifies the intangible asset’s generation in a research stage and a development stage. If an entity cannot distinguish between the research stage and the development stage of a project creating an intangible asset, the entity handles the expenses incurred for such project as arising only from the research stage.

Any intangible asset, resulting from research (or from the research stage of a domestic project) is not recognized. The research expenses (or those from a domestic project's research stage) are recognized as expenses when generated, given that in the research stage of a domestic project, the entity cannot prove the existence of an intangible asset or if the said will generate future economic benefits.

2. Theoretical foundations regarding the assessment of intangible assets in the accounting

2.1. The perspective of the international accounting referential regarding the assessment of intangible assets in the accounting

A. Initial assessment of intangible assets

The assessment of intangible assets depends on how they are acquired: separate acquirement, acquirement within a group of companies, own production.

Separate acquirement

IAS 38 indicates that the price paid by an entity to acquire separately an intangible asset will illustrate the expectations as regards the possibility for the future economic benefits of such intangible asset to belong to the entity. The recognition criterion is always deemed as met by the intangible assets acquired separately. Moreover, the cost of an intangible asset, separately acquired, can be generally and reliably assessed. The cost includes the price of acquirement, including import customs duties and non-reimbursable acquirement taxes, as well as any other cost directly related to prepare the asset to be used. If the payment of an intangible asset is postponed beyond the regular period of loan, its cost is the equivalent of the price expressed as moneys and the difference between such size and the total of payments is recorded as financial expense, during the loan, except for the case when such difference is included in the asset's cost, as per the other authorized processing of standard (L. Feleagă, 2005; p.115).

Acquirement as part of a group of companies

As per IFRS 3 – group of companies, if an intangible asset is acquires within a group of companies, the cost of the intangible asset is the fair value upon the acquirement date. The fair value illustrates the market's expectations as regards the possibility of the expected future economic benefits included in the asset to belong to the entity. The entity foresees an entry of economic benefits even though the time or value of such entry is not certain. The fair value can be determined easily when an active market exists for the asset under analysis. Active market means that unitary items are transacted, sellers and buyers can be identified, at any moment, and the prices are available for the public.

In the absence of an active market, the intangible asset must be evaluated as per the amount that the company paid for it, on the acquirement date, during a transaction between well informed parties, which act under regular competition circumstances. To determine such amount, the company should take into account the result of the most recent transaction for similar assets (N. Feleagă, 2004; p.181).

Own production

IAS 38 indicates that it is sometimes difficult to evaluate if an intangible asset, generated internally, meets the conditions to be recorded in the accounting. To recognize intangible assets, arising from the development stage, additional conditions of recognition have been set. Without considering the fulfillment or non-fulfillment of such conditions, IAS 38 indicates that brands created by the company, do not have to be recorded in the accounting as intangible assets (IFRS, 2009; p.2002). This rule relies on the belief that expenses to develop such brand cannot be distinguished from the development cost of the activity in its entirety. The international framework acts prudently and places reliability on the top position. Any intangible asset, resulting from research, does not have to be recognized. The research expense must be recorded as expense, when it is employed.

Exchanges of intangible assets

An intangible asset can be acquired within an exchange or partial exchange with a different intangible asset or another asset. The cost of such asset is evaluated according to the fair value of the received asset, based on the following exceptions: the exchange transaction does not have commercial substance or the fair value of the exchanged assets cannot be reliably measured. For such exceptions, the received asset is evaluated based on the accounting value of the assigned asset.

B. The subsequent assessment of the initial accounting of the intangible assets

Subsequent to the initial accounting, an intangible asset must be recorded based on its cost, diminished by the amount of amortization and amount of value loss (IFRS, 2009; p.2006). It represents the reference method from IAS 38. The alternative certified method is reevaluation, by means of which an intangible asset must be recorded as per its reevaluated size, relating to its fair value from the reevaluation date, diminished by the amount of further amortization and the amount of loss of further value. Such reevaluations require for the fair value to be determined by reference to an active market. An active market can exist for taxi licenses, fishing licenses or production shares. However, there is no active market for brands, newspaper titles, patents or trademarks, because all of such assets are unique. The price paid for an asset may not necessarily show enough information of the fair asset of another asset.

If an intangible asset is reevaluated, all the other assets from its category must be revalued, provided that there is a market for such assets.

If an intangible asset, pertaining to a category of reevaluated intangible assets, cannot be reevaluated because there is no active market for that asset, the asset must be recorded as per its cost, diminished by the amount of amortizations and loss of values. When the accounting value of an intangible asset is increased following a reevaluation, the increase leads to the increase of own equity, by records in the column for reserves from reevaluation. A positive reevaluation must be recorded in incomes if it compensates for a negative reevaluation of the same asset, previously recorded in expenses. However, a negative reevaluation must be directly bear on the reserve from the corresponding reevaluation if the reduction exceeds the value recorded in reserves from reevaluation, in the name of the same asset.

2.2. Assessment of intangible assets as per OMFP 3055/2009 for the approval of the accounting regulations complying with European directives

According to the Romanian accounting regulations, at their entry in the entity, intangible assets are evaluated and recorded in the accounting as per their *entry value*, which is determined as follows:

a) As per the acquirement price – for assets acquires under an onerous title;
b) As per the production price – for assets produced in the entity;
c) As per their contribution value, determined following evaluation- for assets representing contribution to the share capital;
d) As per their fair value – for the assets obtained free of charge or are found in plus in inventories;

The acquirement price of the intangible asset includes the purchase price, import duties and other taxes (except for those that the legal person can recover from the tax authorities), expenses for transport and handling and other expenses which can be directly related to that intangible asset's acquirement. Also, fees, notary taxes, certification expenses and other expenses related directly to the said assets are included here.

The production cost of an intangible asset includes the acquirement cost for the ray materials and consumable and the production expenses directly related in this respect. The production cost of the intangible assets includes production related direct expenses, namely: direct materials, energy consumed for technological purposes, direct labor and other direct production expenses, the cost of product design and the share of indirect production expenses, distributed and related to their manufacture.

As regards the production of intangible assets, other direct expenses may include:

- Costs for emplacement design;
- Initial costs for delivery and handling;
- Costs for installation and assembly;
- Costs to test the asset's proper functioning;
- Professional fees and asset paid fees, etc.

The contribution fee and *the fair value* replace the acquirement cost when the assets represent contribution to the share capital and for assets obtained under an onerous title or which are found in plus in inventories.

Fair value represents the amount for which the asset could be willingly exchanged between well-informed parties during a transaction and based on a price objectively determined.

In general, the assets' fair value is set by means of an evaluation made by professional assessors based on the information available on the market.

If there is no information available on the market as regards the fair value, given the specialized nature of assets and the low frequency of transactions, the fair value can be set based on other methods used by professional assessors.

The evaluation of intangible assets during inventories is made upon the completion of the financial year when, according to the law, a general inventory is performed. The evaluation of intangible assets is made as per the current value of each element, referred to inventory value. *The inventory value* is set based on the use of the asset, its condition and market price.

The principle of prudence, according to which all value adjustments due to depreciation or loss of value, is applied to determine the inventory value. If the inventory value is higher than the value recorded in the accounting, the inventory lists will indicate the accounting values. If the inventory value is lower than the accounting value, the inventory lists will indicate the inventory value.

The evaluation will be performed in compliance with the principle of method permanence, which implies that evaluation models and rules are kept to preserve the comparability, in time, of the accounting information.

The rectification of the value of tangible and intangible assets and their upgrade to the level of the inventory value are made, according to the type of existing depreciation, either by recording an additional amortization if an irreversible depreciation is noticed or by setting or supplementing the depreciation adjustments if their reversible depreciation is noticed.

3. Conclusions

The issue on the recognition and evaluation of intangible assets, for which we have tried to highlight several defining elements, keep stirring controversies given that, in a society marked by competition and change, the assessment of future benefits generated by investments depends less on their material or immaterial nature and more on the features of the market when they operate (degree of competition, rapidity of technological changes).

The relevance and reliability of the account information require a proper accounting processing and the international bodies (IASB and FASB) of accounting regulation, have listed, on their long-term agenda, a project concerned with the accounting of intangible assets. At the moment, the accounting regulations encourage (without compelling) companies to list, in their explanatory notes, categories of investments which impact on the long-term performance, but which do not exceed the restrictive threshold of their recognition as assets (as per IAS 38) in the balance sheet.

The concept of asset includes an accounting connotation, represented both in the companies' accounting and in other activities, such as the evaluation.

Certain authors promote fair value as value close the economic reality as it highlights the creation of value for shareholders and social partners. The accounting at fair value related to the historical cost implies advantages as regards the improvement of the accounting information's comparability, by assets' differentiation, objectiveness and neutrality in the evaluation accounting methods. The use of fair value in accounting allows the preparation of financial statements, which grant to third parties, better information regarding present and future performances and, thus, the possibility to substantiate decisions.

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