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Popesc, Eleodor

University of Petroșani

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RESEARCHES IN A SISTEMIC APPROACH OF INTANGIBLE ASSETS ACCOUNTING

Engineer Eleodor Popescu, PhD candidate, University of Petroșani

SUMMARY

Entities frequently spend resources or attire debts to purchase, develop, maintain or extend intangible resources like scientific or technical knowledge, design and implementation of new processes and systems, licenses, intellectual property, knowledge on market and brands (including trademarks and advertising titles). Commune samples of incorporated elements in these vast directions are software, patents, authors right, cinematography movies, consumer lists, rights concerning mortgage services, fishing licenses, importation quotes, franchise, relationships with consumers or suppliers, consumer's loyalty, market share and marketing rights.

Not all the above described elements correspond to the definition of an intangible asset, namely the identifiable character, control on some resources and the existence of some future economical advantages. In case an element entering under the incidence of the present standard does not correspond to the definition of an intangible asset, the expenses with purchase or its realization on internal level is recognized as expense when paid. Still, in case achieved as part of a mixture of enterprises, the element in discussion is part of the commercial fund, recognized at the purchase moment.

An intangible asset must be recognized in the balance sheet in case estimated to generate economical advantages for the entity and the cost of the asset can be discharged in a credible/reliable manner.

Moreover, in respect to this general definition, the International Accounting Standards come with specific elements connected to the recognition of the intangible asset in the financial situations.

According to IAS 38 "Intangible assets", an intangible asset is an asset that can be identified as non-monetary, without material support and possessed to be used in the production process or for the supply of goods or services, to be rented to some other persons, or for administrative purposes.¹

KEY WORDS

Intangible assets, tangible assets, International standard, accounting, amortization, cost, expenses.

CONTENT OF THE PAPER

The great majority of the investments through which the today's enterprise edifies or develops its competitiveness can be classified in the following categories: production or office related, development or purchase of new technologies, diversification, internationalization, reorganization, sales and communications, etc.

Each of the mentioned categories generally has two, new characteristics.

The first characteristic is the high proportion of the intangible investments that, with few exceptions, are not registered in the assets of the balance sheet, but pass directly on operation expenses and refer to:

- research and development;
- formation (of the personnel for all categories);
- reorganization;
- restructuring;
- market studies;

- advertising;
- recruitment.

Due to this aspect the logics of investments is deviated from the accounting cadre, on which the enterprise is judged by creditors, shareholders, justice, according to accounting rigors.

The balance sheet is not any more presenting the essence of the asset and the account of the operation result is disturbed by the weight of the intangible investments.

The second characteristic is represented by the high weight of tangible and intangible elements for which can be separately calculated profitability, as their efficiency, their profitability comes from combinations. This is the synergic effect – effect of integration into the systems, the effect of combination into the system.

Neglecting this system effect leads to major mistakes. Taking it into consideration raises serious problems, especially concerning precision.

The investment project for such a case becomes a complex application. There can be already distinguished several levels to consider this complexity from the one approaching the problem of the project.

The first level for the approach of complexity:

- the enterprise believes that is only about purchasing an equipments plus a package of standard programs, directly used, the consequence being a great failure probability.

The second way:

- the enterprise considers that purchasing the equipments plus the standard programs package should be completed with the elaboration by the specialists of the programs of application at its case (its conditions); the result is a probable failure because the “problem” is supposed as being unchanged.

The third modality:

- the enterprise recognises that the success supposes between others the partial re-conception of the equipments, of the operation scales, of the work jobs, qualification, relations with suppliers and others;
- the enterprise recognises the necessity for personnel training;
- the enterprise considers as necessary the involvement of some skilled persons in reorganization studies.

The success of such project and the reasoning cadre for the forecasted appreciation of its profitability supposes an approach aiming the complete system, this way:

- it should realize a better identification of all success factors and in the same time of the costs group.

The equipments part must be partially restructured.

The profitability of the investments in the system as a result of an approach vision like the third mentioned type is more likely to be realised. Also, it should be taken into consideration the technical and financial risk, presenting images of the dangers for investments in the systems, leading to caution; but can also lead to renunciation at making great investments in the integrated systems.

This is the negative side of the investor – exaggerated caution, as in fact this renunciation means the loss of the opportunity to engage projects capable to ensure the competitive position and the situation of leader in a branch.

For complex projects for investments into the system, the component parts of a project cannot be judged separately, but should be judged as a whole package composed of equipments (tangible investments + intangible investments) and judging such a package is subordinated to other rules and principles exceeding the classical approach.

In respect of everything presented above, I will try to present as follows a study on reflection in accounting of the intangible assets, according to the international accounting standards.

Accounting of the intangible assets by IAS 38 „Intangible Assets”

An intangible asset is an asset that cannot be identified monetary, without material support and possessed to be used in the production process or for the supply of goods or services, to be rented to third persons or for administrative purposes.

Research is an original and planned investment realised within the perspective of new scientific and technological knowledge, as well as a better understanding.

Development represents the application of researches results or of other knowledge in a planning and designing process, within the purpose of materials, devices, goods, processes, systems or new services or substantially improved, before establishing series production or its utilization.

An active market is a market where the following conditions exist:

- the commercial elements are not homogenous;
- interested buyers and sellers can be found permanently; and
- prices are known by the public.

The conditions for recognition of an intangible asset are: **(1)** identifiability; **(2)** control upon some resources and **(3)** existence of some future economic advantages.

(1) Identifiability. The intangible asset should be identifiable, to make the distinction from the commercial fund.

(2) Control. A company control an asset in case this can obtain future economic advantages from that source and, also, in case able to restrict the access of the other to those advantages.

(3) The future economic advantages can be divided into: incomes from the sale of products or services; cost reductions; other advantages resulted from the use of the asset by the company.

An intangible asset can be measured initially for **cost**.

Purchase cost

In case an intangible asset is purchased separately, its cost should be evaluated with fidelity

The cost of the intangible assets contains its purchase price, including:

- any non-refundable taxes and levies ;
- any expenses that can be directly given to the preparation of the good for its use, as professional commissions for legal services.

Any commercial discounts and reductions are deducted to reach the cost value.

In case the payment for an intangible asset is postponed more than the normal loan term, its cost is the equivalent in cash for the price; the difference between this amount and the total of payments is recognized as expense with interest in the entire period of the credit, except the case in which is capitalized according to the alternative treatment allowed in the IAS 23 „*Obligation costs*”.

In case an intangible asset is purchased in exchange of the capital instruments of the company, the cost of the asset is the correct value of the own capital instruments that are issued, which is equal with the correct value of the asset.

The cost of the intangible asset supplied in a combination of enterprises of the purchase type, is based on its correct value at the purchase moment.

Production cost

Sometimes it is difficult to indicate that an intangible asset produced from own resources can be recognized.

To indicate whether an intangible asset realised with own resources has the criteria for recognitions, it is imposed the separation in two phases of the process for the realization of the intangible asset, to recognize for it:

- a research phase;
- a development phase.

In case a company is not cap[able to make the difference between two phases of an internal project for creation of an intangible asset, the company treats expense with that project as if was realized only in research phase.

Research phase. No intangible asset from research (or from the phase of research of an internal project) should be recognised. The research expense (or from the phase of research of an internal project) must be recognised as an expense when realised. Samples of research activities: activities realised within the purpose of achieving new competences; research, evaluation and final selection of the applications from research or other knowledge; research for alternatives of materials, devices, products, system or services; and the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, product, processes, systems or services.

Development phase. An intangible asset from development (or from the phase of development of an internal project) must be recognised only and only if a company can demonstrate the following: technical feasibility to end the intangible asset, in order to be available for usage or sale; the intent to end that intangible asset to be used or sold; its ability to use or sell the intangible asset; the modality of the intangible asset to produce future economical advantages. Among others, the company should prove the existence of a market for the products obtained from that intangible asset or for the specific intangible asset or, in case used internally, the use of intangible asset; the existence of technical, financial and other proper resources to lead to a better end its development to use or sell the intangible asset; and the ability to evaluate in a precise manner the expense proper for the intangible asset during its development.

Samples of **development activities**: design, construction and testing pre-production or pre-usage of the prototypes and patterns; design of the tools and matrices involving a new technology; design, construction and operation of a pilot-factory which is not feasible from the economical point of view for large scale production; design, construction and testing of an elected alternative for the apparatus, products, processes, systems or new or improved services.

Cost of an intangible asset produced of own resources. The cost of an intangible asset produced from own resources is the expense supported from the date at which the intangible asset fulfills for the first time the recognition criteria and contains all expenses that can be assigned or given on a reasonable and consequent basis for the production and preparation of the asset for its usage.

The cost includes: expenses with materials and services used or consumed for the production of an intangible asset; salaries and other costs connected to the personnel directly involved in the production of the intangible asset; any expense directly due to the generation of the asset; fix expenses that can be given on a reasonable basis for the asset.

The cost for the production of an asset **does not include:** the overheads for trade, administrative or general, except for the case in which these expenses can be directly granted to the process of preparation of the asset for usage, inefficiencies identified in the beginning stages and in losses from initial operation, appeared before an active realises the performance planned, expenses with personnel training for the operation of the asset.

Recognising some expenses. The expense with an intangible assets should be directly recognised in the account for gain and loss when realised, except for the case when: is a part of the cost for an intangible asset complying with the recognition criteria; or the element is purchased in combinations of enterprises of the type of a purchase and cannot be recognised as an intangible asset.

Samples of other expenses recognised at realization: formation expenses, until these are included in the cost of an element from the category of fields and fix means, according to *IAS 16 „Tangible assets”*; expenses with specialization activities; expenses with promotional and advertising activities; and expenses with the displacement and partial or total recognition of a company.

Further expenses with an intangible asset, after its purchasing or ending, should be recognised when realised, except for the case when: it is possible that this expense allow the asset to generate supplementary future economical advantages, in confront with the ones initially estimated; and this expense can be evaluated with fidelity and granted to the asset. In case these conditions are fulfilled, ulterior expenses must be added at the cost of the intangible asset. Further expenses for an intangible asset are recognised in case these are necessary to maintain the asset at the performance standard that has been initially established. Due to the nature of the intangible asset, in case it is not possible to establish either all ulterior expenses increase or maintain the economical advantages entering the company by the operation of these assets. As a consequence, only sometimes the expense realised after the initial recognition of an intangible asset, that is purchased or ended from own resources can be added to the cost of an intangible asset.

Example:

It is supposed that a commercial company realises the following operations in connection to the intangible assets, starting with 2007:

A) *Purchases an informatics program that would be used for own needs in the total amount of 5.000 lei, the useful life period being of 3 years and the corresponding license in the amount of 105000 lei, namely the right to sell this program for a period of 2 years.*

B) *The company under analysis has as part of its activity the activity of research – development, realised by:*

1) own research laboratory;

2) collaboration with a researches center;

B1) *It starts a research process with its own laboratory, this way:*

- 01.01.2007 – 31.01.2007-activities realised to obtain new knowledge 2.000 lei;*
- 01.02.2007-20.07.2007- evaluation and final selection of the applications from research 8.000 lei;*
- 21.07.2007-30.11.2007-research for materials alternatives, systems of services 1.500 lei;*
- 1.12.2007-31.12.2007- design, construction and testing production 5.000 lei;*
- 01.01.2008-30.03.2008-construction and testing of an chosen alternative 1.200 lei.*

B2) *Purchase from the researches center of the study „Technology to obtain X product” in the amount of 5.000 lei.*

C) *In the year 2009 the research – development project initiated through its own laboratory, passes into a new phase, expenses realized being in the total amount of 1.400 lei.*

D) *Plans spending the amount of 4.500 lei at the beginning of each year for 5 years to promote the name of the company. As a result of this advertising campaign it is expected that the gross income (including advertising expanses) to increase at 18.000 lei for 4 years.*

E) Getting an informatics program out of use, having an accounting value of 2.500 lei, the registered amortization 1.200 lei. Expenses caused with getting out of use are in the total amount of 600 lei from which materials 100 lei and wages 500 lei.

F) At 01.01.2007 initiated a research project, the total value of the research expenses being estimated at 3.000 lei. It capitalised expenses and amortized them for 5 years. In the year 2008 it has begun the application of IAS 38 and would recognise them as expenses of the period.

Solution:

A) As it can be realised an exact separation between the two components (**conditions for the recognition of an intangible asset, according to IAS 38**), in accounting these would be observed separately:

	%	=	404	<u>6.500 lei</u>
			Assets suppliers	
208				5.000 lei
<i>Other intangible assets</i>				
205				1.500 lei
			<i>Concessions, brevets, licenses, trademarks and other rights and similar values purchased</i>	

B1) a) Separation of the developed activities into research and development:

DATE	RESEARCH PHASE	DEVELOPMENT PHASE
01.01.2007-31.01.2007	Activities realised to obtain new knowledge: 2.000 lei;	
01.02.2007-20.07.2007	Evaluation and final selection of the research applications: 800 lei;	
21.07.2007-30.11.2007	Research for alternatives of materials, services systems: 1.500 lei;	
01.12.2007-31.12.2007		Design, construction and testing pre-production: 5.000 lei;
01.01.2008-31.01.2008		Construction and testing an elected alternative: 1.200 lei
TOTAL	4.300 lei	6.200 lei

According to IAS 38 “An intangible asset from **research** (or from the research phase of an internal project) should not be recognised. The expenses from research (or from research phase) should be recognised as an expense when realised”.

As a result, in the period 01.01.2007-30.11.2007 there would be registered:

614	=	5121	4.300 lei
<i>Expenses for studies and researches</i>		<i>Current accounts in the banks</i>	

According to an analysed standard “An intangible asset from **development** (or from development phases of an internal project) must be recognised as an asset in case of fulfilling certain conditions”ⁱⁱ

1) registration of the present production at the end of 2007:

233	=	721	5.000 lei
<i>Current intangible assets</i>		<i>Incomes from the production of intangible assets</i>	

2) registration of the present production in the year 2008:

233	=	721	1.200 lei
<i>Present intangible assets</i>		<i>Incomes from the production of intangible assets</i>	

3) concluding production at 31.01.2008:

203	=	233	6.200 lei
<i>Development expenses</i>		<i>Present intangible assets</i>	

B2) Still according to the above mention, the purchase of the study generates the registration:

203	=	404	5.000 lei
<i>Development expenses</i>		<i>Assets suppliers</i>	

C) According to IAS 38 *Ulterior expenses with an intangible asset after purchasing or its ending should be recognised when realised, except for cases in case these conditions are respected, ulterior expenses must be added at the cost of the intangible asset.*

As a result, expenses realised by that company are recognised as an asset as are realised with the purpose to maintain the asset at the initial standard of performances:

203	=	404	1.400 lei
<i>Development expenses</i>		<i>Assets suppliers</i>	

D)-1. Capitalization method

a) the capitalization of the 1 (4.500 lei ×5) = 22.500 lei

205	=	401	22.500 lei
<i>Concessions, patents, licenses, trademarks and other rights and similar values purchased</i>		<i>Suppliers</i>	

b) Annual payment:

401	=	5121	4.500 lei
<i>Suppliers</i>		<i>Current accounts in the banks</i>	

c) Amortization on the estimated period of increasing the income (4 years): 22.500 lei/4 years = 5.625 lei

6811	=	2805	5.625 lei
<i>Operation expenses concerning the assets' amortization</i>		<i>Amortization of concessions, patents, licenses, trademarks, similar rights and assets</i>	

The effect on the annual profit would be:

Gross income	18.000 lei-
Expenses with amortization:	5.625 lei
Total gross profit in 4 years:	12.375 lei

D)-2. Method of recognition as expenses of the period

a) registration of the payments for annual advertising expenses:

623	=	5121	4.500 lei
<i>Protocol, advert and publicity expenses</i>		<i>Current accounts in the banks</i>	

The effect on the annual profit would be:

Gross income	18.000 lei-
Expenses with advertising	4.500 lei
Total gross profit, registered in 4 years	13.500 lei

E)-E1) Taking out of evidence the informatics program out of use

%	=	208	<u>2.500 lei</u>
		<i>Other intangible assets</i>	
2808			1.200 lei
<i>Amortization of other intangible assets</i>			
6583			1.300 lei
<i>Expenses concerning the assets assigned and other capital operations</i>			

E2) Registration of the expenses realised with getting out of use:

%	=	%	<u>600 lei</u>
6588		302	100 lei
<i>Other operation expenses</i>		<i>Disposable materials</i>	
		421	500 lei
		<i>Due wages for personnel</i>	

E3) Registration of the resulted components:

302	=	7588	800 lei
<i>Disposable materials</i>		<i>Other incomes from operation</i>	

F) Total estimated value:	3.000 lei-
Gathered amortization (3.000 lei/years × 3):	<u>1.800 lei</u>
Accountancy net value	1.200 lei

Registration of the cancellation of the research expenses capitalization:

%	=	203	<u>3.000 lei</u>
	2805	Development expenses	
Amortization of concessions, patents, licenses, trademarks and other similar rights and values			1.800 lei
	614		
Expenses with studies and researches			1.200 lei

CONCLUSIONS

IAS 38 “Intangible assets”, underlines the particularity of the elements accomplishing the definition of intangible assets, namely the identifiable character, control on some resources and the existence of some future economical advantages. In case an element in the area of application of the International Standard does not accomplish the definition of an intangible asset, the expense to obtain or to internally generate it is recognised as cost at the moment of occurrence. Still, in case this element is obtained by a combination of enterprises, according to IFRS3 revised in 2008, it represents a part of the commercial fund, and would be recognised at the purchase moment.

According to IAS 38 “Intangible assets”, foundation expenses should be recognised as expenses of the period when realised. The foundation expenses are defined as foundation costs, like secretary costs and the juridical ones supported at the foundation of juridical entities, expenses to start a new business, or expenses to start new operation or to launch new products or processes (operation costs).

Maintaining foundation expenses in financial situations is not in discrepancy with the provisions IAS 38 “Intangible assets” the international referential indicates that this can be recognised in the situation of the global result and included in the correspondent expenses class.

IAS 38 “Intangible assets” indicates that marks, newspapers and revues titles, customer’s lists and other similar elements are generated internally, should not be recognized as intangible assets.

Expenses with marks, newspapers and revues titles, customer’s lists and other similar elements are generated internally cannot be differentiated by the development cost for the enterprise at a total. As a consequence, such elements are not recognized as intangible assets.

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