

Intangible Wealth, between Recognition and Evaluation

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The theme of this work is the recognition, assessment and importance of intangible property in the financial statements of an enterprise. The paper presents an insight into intangible assets recognition of causality, with highlight relevant aspects of how education contribute in a decisive manner, through the generation and dissemination of knowledge in order to achieve specific strategic goals of economic policy. This issue has also been a challenge and it still represents one for companies that have intangible assets overstated or that have kept in their balance sheet intangible assets without a properly assessed market value. The paper also addresses the issue by restricting the proposed theoretical aspects in favor of those which are directly related to the accounting practice in line with International Accounting Standards and with the accounting regulations of our country.

Keywords: intangible assets, intellectual capital, divergence, recognition, evaluation.

Any scientific investigation incites curiosity and qualities of the researcher to express ideas formulated following a process of studying and research. A description of the incompatibility between what it is observed and what it exists may give rise to the emergence of proposals for solutions for the suppression of this inconsistency. A large part of the things you need to know about the intangible assets have not been discovered yet, and may be the subject of a scientific study as a foundation for the implementation of a new insights on accounting in Romania. This unknown part cannot be contained into a single article, but it clearly shows what we investigate and discover it represents very little in comparison with what we will know about after a couple of years.

Developed countries' economies have dematerialized in the past two decades. They have gone from an economic system in which competitive advantages depended on material and financial resources, managed and controlled by State-owned enterprises, to an economic system in which the achievement of the performance shall be the subject, in principle, immaterial, intangible resources, created in the previous activity of firms. The global economic system is transformed into a system of intellectual economy (Bianchini, 2004).

This poses a challenge to identify the practices adopted by countries in order to assess and reporting intangible capital and it proposes solutions to expedite the process of harmonizing accounting requirements. Intangible assets are elements of intellectual capital, which is likely to be recognized as an asset if the recognition of the International Accounting Standard established criteria are met (Meritum Project, 2001).

Thus, the concept of intangible assets has become an important subject of analysis for industrial competitiveness. Since 1994, the European Commission has launched a number of studies and projects aimed to understand the depth of the knowledge-based economy and the importance of intangible assets as factors of competitiveness.

Along the time it has been shown that there are considerable differences between the market value of a firm's net accounting value, due to the existence of certain intangible assets, which has led to a concentration of efforts to identify missing items and quantification. For example, statistics from 2004 showed that Microsoft's market value was 286.2 billion dollars, while the book value was only 57.5 billions of dollars, which means a ratio of 5:1 in favor of intangible resources. At eBay, the company's market value was \$ 54.5 billion, and the accounts of 4.9 billion dollars, resulting in a ratio of 11:1 (Dess and others, 2006).

To meet the information needs of financial statements users, some firms will establish special reports which present the nature and value of intellectual capital (Castilla and Gallardo, 2008). Efficiency and effectiveness of the various relationships with customers or suppliers, and correct

management are not just in trend concepts, contrary, they make the difference between success and failure of a business and define the enterprise's ability to coordinate and combine all our resources to achieve a profitable outcome.

Intangible resource-between knowledge and recognition

Introducing in the financial statements of a factor such as the value of the intangible assets held by the company, along with tangible factors such as the company income, it meant recognition of the fact that a good portion of the value of these companies is derived from the existence of these intangible values, as well as intellectual capital. Furthermore, a number of studies conducted on Western markets showed that, in most cases, intangible asset headings get averaged to represent more than one third of the total value of the companies. Even before the advent of these studies, there were several instances of Western markets which showed that markets concerned recognize, at least in informal mode, the fact that there are many intangible factors that influence decisively the value of the company in question. Thus, it has become a practice in many acquisitions of companies made in the 1980s that the price paid for their purchase to be higher than the price of the shares on the market, as in the case with the Rowntree company's acquisition by Nestle, or Pilsbury company by Grand Metropolitan. In each of these cases, the price paid was higher than the value of tangible assets owned by the companies purchased (Procter and Gamble, 2010).

This trend continued in the following years, when intangible values held by various companies have come to play an increasing role in their developments on the market. An admitted example which highlights the importance of recognition of intangible assets was recorded in 1988, when the company Rank Hovis McDougal (RHM), one of the largest food production companies from United Kingdom, was the subject of a purchasing offer of the Australian competitor, Goodman Fielder Wattie. RHM has successfully managed to convince shareholders not to accept the offer, explaining that the Australian bid had not counted intangible assets of the company. Although at the time the practice was quite controversial due to the fact that there was not any standard method for calculation of sufficient fixed non corporate values. In 1989, the London Stock Exchange has accepted the introduction of intangible values into the proposed price to shareholders, thus accepting the proposed practice that RHM claimed a year before.

Introducing the intangible values in the financial results of companies gradually became a standard, recognized by the legislation of many countries. Thus, in 1999 the United Kingdom introduced the financial standard FRS 10/11, and in 2002 the USA has introduced the financial standard FASB141/142, both designed to allow companies to introduce intangible values into their financial balance sheets, and the way of recognizing and assessing intangible was established by IAS 38.

Intangible asset headings are recognized in the statement of financial position if they meet the definition and recognition criteria. Their definition is in direct correlation with the character identification, the control over a resource and the existence of future economic benefits and their use to be over a number of years. It is not sufficient as an asset to satisfy only the rules of definition, but also in recognizing the effect of controlled resources.

In the recognition of separately acquired intangible assets the professional reasoning must be present in order to assess and evaluate the level of associated safety obtaining future economic benefits attributable to the asset use, on the basis of the evidence existing at the time of initial recognition, requiring greater evidence. Also, if exercised control exists, if the entity has the ability to obtain the future economic benefits and to restrict access to other entities in the future through sustained legal rights in court. Legal rights are not a condition sine-qua-non to controlling. There are other possibilities to control future benefits. For instance, technical knowledge can generate future economic benefits. Such knowledge can be protected by copyright, or a restriction imposed by a commercial contract, legal obligation to preserve the confidentiality of employees. But, on the other hand, where an entity holds the qualified personnel able of additional expertise and through continuous education and training could generate future economic benefits, it does not have enough control over the benefits to be generated for these elements corresponding to the definition of an intangible royalty.

Altogether, the recognition of an intangible asset, however, is conditioned by the probability that the economic advantages attributable to revert to the entity. Assessment of the probability of future economic benefits must be based on rational calculations representing the best evaluation for the existing economic conditions throughout immobilization period.

Business valuation according to intangible factors

Evaluation is a complex process, which does not summarize assessment methods. The evaluation must be familiar with the basic principles and experience of specialized companies for each type of evaluation.

Recognition of the legislation of the entities right to evaluate their business and relying on held intangible value has led to diversification and development of numerous evaluation methods, as well as the goals for this assessment is used. For example, the assessment of intellectual capital is difficult to achieve because the big problem this procedure creates, called "accounting for goodwill" is that it does not provide a scientific basis for assessment of the value of intangible assets held by the entity in question. Potential buyer evaluates the value of the intangible assets of the entity by relying on his knowledge about the business in which it intends to invest. This means that, almost invariably, one of the two sides will end up to evaluate its or, even, to underestimate the value of intangible assets. To avoid this problem, more and more companies have begun to look for ways of calculating their intangible assets and, obviously, they value their input into the calculation of the total value of the company. Thus, in the mid-'80s, Reckitt and Colman, a company based in England, introduced Airwick, his brand, the company's balance sheet, taking advantage of the fact that the country's legislation allowed the inclusion of newly acquired brands like intangible values in the balance sheet of the company (Peter Cheverton, 2004).

The inclusion of the value of intangible assets owned by companies in calculating their financial statements has led to diversification goals in which assessment is used. Use the value of the intangible assets in commercial or legal disputes, for example in the case of disputes such as the dissolution of a partnership, copyright violation or non-compliance of agreements between companies, it very often will appear the problem of damage produced to the company. Therefore, in order to calculate the damages, it is very important for companies to know the total value of the assets which have suffered damage.

In the case of brands, companies are increasingly using brand value estimation in order to provide a scientific basis on their decisions about the allocation of budgets to promote various brands. Thus, if it is accurately known the value of a brand, its managers will fix much easily the budget dedicated to it, which is the value of in question brand budget related to the budgets of the other brands of the company and whether the strategy adopted for the respective brand will be one of development, maintenance, or, on the contrary, the collapse of its importance (Moisescu, 2013). Thus, the evaluation of the brand does not influence only the company's policy regarding the respective brand, but also the decisions taken in a global level for the development of the company.

International financial Standards allow companies to evaluate their assets as correctly as possible, reducing the undercutting or overvaluing of those elements. Valuation of intangible assets can be done by considering the set of intangible elements as part of the company evaluation or by separately evaluating a single item of intangible asset.

Evaluation of intangible assets can be accomplished by several means, by analogy with material possessions. In this sense, the value can be established by one or more of the following forms:

- *evaluation of separately acquired intangible assets at cost of acquisition*

The cost of separately acquired intangible assets can be reliably evaluated especially when the counter value takes the form of cash. Cost recognition in the book value of an intangible assets item shall cease when the asset is in a condition to be functioning and in the manner desired by management. This means that any cost should not be recognized after the asset was acquired and meets all the conditions.

- *an intangible asset evaluation as part of a combination of enterprises (companies)*

Evaluation of the entry of an intangible assets acquired as part of a combination of undertakings, is its fair value at the date of acquisition. A market price quoted on an active market ensures the most reliable estimation of the fair value of an intangible. If the current bid price is not available, the price of the most recent similar transactions can provide a basis from which to make an estimate of the fair value provided to significant changes between the transaction date and the date on which it is estimated the fair value of the asset. It is unusual for there to be an active market for intangible assets, for example, there can be an active market for patents and trademarks considering that each is unique. Where there is no active market, the cost will be the amount that an entity would have to pay for an asset in a voluntarily and assumed transaction between the parties, at a price that has been set. An immobilization from business gained from a combination of undertakings may be separable, together with a related contract, with an asset or a liability. Thus, the Purchaser acknowledges a restraint from business separately from goodwill, but together with the corresponding element. Where expenditure

does not satisfy the recognition criteria, the items must be passed on the expenses at the time it appears.

- *evaluation of an intangible asset acquired through government subsidies*

Assets subsidies consist in Government subsidies for the granting of which the recipient entity should purchase, construct or otherwise acquire intangible assets. The book value of an intangible asset and the Government subsidy should be estimated at fair value. Another alternative for the initial recognition of intangible asset is recording both the asset and the subsidy at face value, if the entity chooses not to recognize the initially fair value of the assets. This value is added to any cost directly attributable for preparing the restraint for the use intended.

- *evaluation of intangible assets in the enterprise through the exchange of intangible assets*

An intangible asset may be acquired by sharing one or more non-monetary assets, or a combination of monetary or non-monetary assets. The evaluation of a non-monetary active with one another is made at fair value. The cost of an intangible asset with another intangible asset is valued at fair value if:

- Exchange transaction lacks commercial character. Risk, placing in time and amount of cash flows of the asset received is different from the announcement of cash flows of the asset transferred.
- the fair value of the asset received, respectively transferred cannot be reliably assessed, at fair value.

If acquired assets is not valued at fair value, its cost is valued at the book value of the asset given away. For the exchange of intangible assets with an intangible element that is similar, with similar purposes and with a fair amount of similar does not recognize any gain or loss from the transaction.

- *evaluation of internally generated intangible*

It is not always easy to assess whether an internally generated intangible asset meets the criteria for defining and accolades. It is for this reason that an entity divides the process of generating assets in two phases:

- Research phase generates only period expenditures. In this phase any intangible asset will not be recognized because it is not possible to demonstrate that it will generate future benefits;
- Development phase-the entity is able to identify an intangible asset and demonstrate that it meets the criteria for defining and recognizing.

In the development phase, cost marks, technical boxes marks, publication titles, customer lists and similar items internally generated cannot be fixed at the cost of development as a whole. Therefore, these items are not recognized as intangible assets. If the enterprise cannot distinguish the two phases for the creation of an intangible asset, it treats that project expenditure as if it were made only as a research stage.

The link between intangible assets of a company and its profit lies in the attention that should be given to entry in the heritage of the granted rights by the law in this area, the correct assessment, as well as the keeping of up-to-date accounts of the movement of these values. At the level of research and development it is seen a special interest in the establishment of evaluation procedures as a result of two main directions requests: the creation of intellectual property assets on the part of economic agents and the pressure of its own employees in developing procedures to encourage the research, namely the remuneration of creative-innovative work, activity.

Practically, it has been noticed the difficulty of developing an overall valid methodology, thus implying a high risk of error, generated by the diversity economic at macro-economic level of economic and organizational structures.

Evaluation of intangible assets can be accomplished by several means, by analogy with material possessions. Intangible asset headings generally should be valued at cost. This will include, among other things, the purchase price and any other costs which can be directly related to preparing the asset for use. The only exception to this rule is the cost of any intangible assets which are acquired during a purchase. Such intangible assets, recognized at fair value, which is the price, impartially fixed, for which an asset can be voluntarily, knowingly exchanged by the parties.

Intangible wealth-a national and international divergence

The internationalization of accounting appeared in the time of Romania's accession to the EU, this being conditional on both knowledge and thorough compliance with the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS), taking account of the development of market economy in Romania.

At the level of treatment of intangible assets, there are certain distinctive approaches between international standards and national regulations.

National accounting regulations compliant with European directives foresee that an entity may include formation expenses to "Fixed Assets". In this case, formation expenses shall be systematically amortized over a period not exceeding 5 years. There is no distribution of profits if as formation expenses have not been completely written off, unless the amount of the reserves available for distribution and profits brought forward is at least equal to that of unredeemed expenditure. The amounts which are entered under "formation expenses" must be disclosed in the notes.

According to IAS 38 "intangible assets", the formation expenses shall be recognized as expenses of the period in which they are incurred. Formation expenses are defined as the costs of establishment, such as the costs of the secretariat and supported the establishment of the legal entity, the legal expense to open a new business, expense for starting new operations or launching new products. ..

According to Romanian accounting rules, there are no restrictions on the registration of fixed assets as expenses incurred by an enterprise development. Also, national regulations provide that these development expenses to be amortized during the leasing or using period. If the duration of the contract or the duration of use exceeds 5 years, it must be presented in the notes, specifying the reasons for it. Where development expenses have not been completely written off, no distribution of profits, unless the amount of the reserves available for distribution and profits brought forward is at least equal to that of unredeemed expenditure.

According to the international demands, sometimes it is difficult to assess whether a restraint from business internally generated qualify for recognition, due to problems of identification and determination of the cost of the asset.

According to the national demands, concessions, patents, licenses, trademarks, similar rights and assets, purchased or representing the input gained through other means, shall be recorded in the accounts of intangible assets in the amount of the contribution or the acquisition cost. In this case the value of the consideration shall be treated as fair value. Received concessions are reflected as intangible assets when the concession contract sets a determined duration and a value for the concession. Depreciation of the concession to be registered for the duration of its use, as determined in accordance with the contract. In a situation where the contract provides for the payment of rent and not depreciable value in the accounts of the entity that receives the grant, recording the expense it represents the rent without the recognition of an intangible.

IAS 38 specifies that the marks, the titles of newspapers and magazines, customer lists and other similar items internally generated should not be recognized as intangible assets. The trademarks, titles of newspapers and magazines, customer list and other similar items in fund, internally generated cannot be differentiated from the cost of development of the enterprise as a whole. Therefore, such items shall not be recognized as intangible assets.

Goodwill, in accordance with the accounting rules in our country, represents that portion of goodwill not included under other items of the heritage, but which contributes to the maintenance or the development potential of the unit, such as: customer, Fund, reputation and other intangible items.

In certain situations, a series of expenses are incurred to generate future economic benefits, but this does not result in the creation of an intangible asset that meets the criteria for recognition from the international norm. Such charges are often presented as contributing to internally generated goodwill. Internally generated goodwill is not recognized as an asset because it is not an identifiable resource controlled by the enterprise, which may be reliably assessed at cost. Differences between the fair value of an entity and the book value of its fixed assets net identifiable at all time, can be influenced by a range of factors that influence the value of the entity. However, such differences do not constitute intangible cost-controlled entity.

Conclusions

National accounting rules are restrictive about the recognition and valuation of intangible assets, and, on the other hand, about the identification and measurement of assets that determines the difference between the net accounting value markets and involves additional costs.

In Romania, the transition from the old accounting system to IFRS-based accounting system is a long-term process which is currently underway. Both nationally and internationally, over the past twenty years have been marked by a significant increase in the number of accounting rules and their complexity mainly due to the increase in the level of activity of the entity that generated and an increase and diversification of the risks to which they were and are subjected to.

Taking into account the significant differences between an accounting system based on strict rules existing in Romania until the introduction of compulsory application of IFRS accounting system and a subjective, influenced by the judgment of professionals and selected policies, how is the system regulated by IFRS is expected to be able to identify various problems arising from the transition from one system to another.

The issue of recognition and evaluation of intangible assets for which I am trying to point out a few defining elements, continues to incite controversy even more so as, in a society marked by competition and change, where an estimate of future benefits generated by investments depend on more of the characteristics of the market.

Up till now, Romanian accounting regulations encourage businesses to make the notes categories of investments that have a significant influence on the long-term performance of the enterprise, but not exceeding the threshold of their recognition as assets in the balance sheet. Accounting evolution is slow and there will always be a gap between the level of immaterial investments and recognized intangible assets because it cannot achieve a credible assessment of all components involved in the investment process.

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