EVALUATION AND RECOGNITION OF INTANGIBLE FIXED ASSETS IN ACCORDANCE WITH NATIONAL AND INTERNATIONAL FINANCIAL REPORTING STANDARDS IAS / IFRS

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Abstract

In a post-industrial economy based on knowledge, the value of business does not given only by physical production capacities, but also by other intangible components such as: trademarks, know-how, patents, technical drawings, etc. Many companies may be very valuable because of the control held on these intangible assets and not because of some tangible assets. It is especially the case of companies in areas that matter greatly the mark on which the property is sold and not necessarily the sold property.

This truth of knowledge economy led to developments also in the accounting area regarding accounting for intangible assets. Intangible assets are classified as fixed assets (with long life). Accounting of intangible items, namely the recognition and evaluation, it is far from uniform, but takes different forms depending on the Accounting frame to which the entity reports and that presents the annual financial statements.

Further, this article deals with intangible assets from two perspective s: a line with International Accounting Reference (International Financial Reporting Standards -IFRS), and the second line with the reporting framework in Romania (Order of Minister of Public Finance no. 1752 / 2005, published in Official Gazette no. 1080 b is) complies with European Directives (Directive IV of the European Economic Community – CEE and Directive VII of CEE).

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INTRODUCTION

The aim of this work was the very difficulties of recognition and evaluation of intangible assets in the financial statements of a company.

The motivation of research consisted in elucidating these issues ve ry difficult for those that prepared the balance sheet in accordance with IAS / IFRS, due to the fact that these assets have started to become an increasingly im portant element in companies heritage.

Intangible assets are handled by the International Accounting Standard (IAS) 38 - *Intangible assets.*

The objective of this standard is to define the criteria for recognition and evaluation of intangible fixed assets dealt with in other standards. [3]

International Accounting Standard 38 applies to all intangible assets, except: [5]

- Financial assets, as defined by the International Accounting Standard 32 - *Financial Instruments: Presentation* and by the International Accounting Standard 39 *Financial Instruments: Recognition and Measurement*;

- Exploration assets and expenditures for capitalization and extraction of resources (minerals, oil, natural gas and other similar non-regenerating resources) - International Financial Reporting Standards 6 - *Exploration and evaluation of mineral resources*;

- Intangible assets owned by an entity to be sold in the normal pattern of activity, when the entity will apply the International Accounting Standard 2 - Inventories, or International Accounting Standard 11 - Construction contracts;

- Intangible subject to a leasing contract that make the applicability of Internat ional Accounting Standard 17 - Leasing contracts;

- Goodwill acquired in a business combination as it is treated by the International Financial Reporting Standards 3 - Combining enterprise; [1] – [2]
- Intangible assets held to be transferred, as handled by International Financial Reporting Standards - Fixed assets held for sale and discontinued activities;
- Other intangible assets which fall within the scope of the other standard than those shown above.

THE DEFINITION OF INTANGIBLE ASSETS

An intangible asset is an identifiable non-monetary fixed assets, lacking physical substance. The definition of intangible asset is based on two essential elements: the identifiable character and defining elements of an active (resource control, the ability to generate future e conomic benefits and credible assessment of the cost of the asset). [4]

THE IDENTIFIABLE CHARACTER

An intangible asset should be identifiable to be separate from goodwill. International Accounting Standard 38 sets out the conditions under which intangib le assets is identifiable: [7]

- The asset is separable, ie it can be individual and separated by the entity and sold, transferred, patented, rented or exchanged, either individually or together with a contract, an asset or related debt;
- Resulting from contractual rights or other rights guaranteed by law.

RESOURCE CONTROL

A resource is controlled by the entity, if it has the ability to obtain future economic benefits from resource, and also whether he has "the power" to restrict access of other entities to such benefits.

Its ability of entity to control the future economic benefits of a tangible fixed asset should not be regarded as a capacity under the legal rights, such as right of ownership for example. However, in most cases are the legal rights that give control over the resource. There is, however, other ways by which one entity can control the economic benefits derived from a resource. [14]

RESOURCE CAPACITY TO ACHIEVE FUTURE ECONOMIC BENEFITS

An entity obtains economic benefits from a tangi ble asset by achievement of income, or by reducing costs resulting from the use of intangible assets.

Examples of intangible assets

Among the most common examples of intangible assets are : patents, software, copyrights, filming movies, Trademarks and Trade, formulas, technology processes, customers, relations with customers and suppliers, franchising, import quotas, market share and marketing rights, the rights of mortgage services.

These elements, in order to be recognized as intangible assets must me et the criteria laid down in the definition of fixed intangible assets: identifiable character, control resources and credible estimate of the cost.

Are not intangible assets under IAS 38: expenses of formation, restructuring and restructuring costs, goodwill generated internally in the enterprise.

DEMARCATIONS REGARDING INTANGIBLE ASSETS

Sometimes the intangible assets should be kept on a physical support (material). To determine whether such an asset should be treated as a tangible fixed asset in accordance with IAS 16 – *Tangible assets* or as an active intangible restrained in accordance with IAS 38 - *Intangible assets*, the entity should appeal to professional reasoning to determine that element is more significant. For example, operating system of a computer makes the body with the computer and then the software is treated as a tangible asset.

In other cases where the software is not an integral part of the hardware in question, then must be classified as intangible assets.

On the other hand there are also situations, such as costs of development (development of prototypes), where all these activities, although are completed in an asset with physical substance, the material element is insignificant in relation to the immaterial component (ie with all the knowledge embedded in realisation of this prototype).

NATIONAL APPROACH ACCORDING WITH DIRECTIVE IV OF EUROPEAN ECONOMIC COMMUNITY

Accounting treatment of intangible items is regulated by the Order of Minister of Public Finance no. 1752 / 2005 for the aprovement of accounting regulations with European directives, as amended and supplemented by OMEF no.2374 / 2007. During the work any reference to the Order of Minister of Public Finance no. 1752 / 2005 will be made by the phrase "*national regulations*".[13]

National accounting rules define intangible assets as identifiable assets, non-monetary, without material support and held for use in the production process or supply of goods or services, to be rented to third parties or for administrative purposes .

RECOGNITION AND EVALUATION OF INTANGIBLE ASSETS, GENERAL PRINCIPLES

A. INTERNATIONAL APPROACH

International Accounting Standard 38 requires two preconditions to quantify one intangible assets:

- The likelihood that the entity obtains future economic benefits from the use of intangible assets;
- The possibility to evaluate a credible cost intangible asset.

An intangible assets is charged:

- As a result of a separate procurement;
- As a result of production in the entity (internally generated);
- As a result of government subsidies;
- As a result of the exchange of intangible assets;
- As a result of combining enterprise.

B. NATIONAL APPROACH

National ragulations states that an "*intangible assets should be recognized in the balance if stock is expected to generate economic benefits for the entity and the cost of assets can be credibly assessed.*"[9]

Form the category of intangible are part concessions also. They will be recognized as fixed assets only if the concession contract provides for a term an d a value determined for the concession.

If the contract provides the payment of rent, the entity will recognize in accounting the charge rent and not intangible assets.[10]

Unlike IAS 38, national regulations allow restraint (enabling) the costs of incorporation. These are costs incurred by the entity during the formation or modification of the constituitve act, being represented by taxes and registration expenses, costs for issuing shares, expenses prospecting the market and advertising expenses related to expanding its business and other expenses of a similar nature .[12]

INITIAL ASSESSMENT OF INTANGIBLE ASSETS

According to international reference (IFRS) intangible assets are measured initially at cost. Cost is determined differently, depending on the way of entry within the entity: separate purchase, internally generated, as a result of exchange of tangible assets, obtained through government subsidy or the combination of enterprises. [6]

Below is shown schematically the composition of the cost of intangible assets depending the entry into the enterprise.

INTANGIBLE ASSETS				
Separate acquisition	Internally generated	Exchange of assets	Government subsidy	Acquisition as part of a combination of enterprise
Acquisition cost = acquisition price + any other cost direct attributable	Production cost = direct production cost	Just value	1.Just value 2.Nominal value (IAS 20) + any attributable direct costs	Just value at the date of acquisition

Under national regulations, an intangible assets at beginning is counted as:

• acquisition cost, for assets purchased for consideration
• manufacturing cost, for products produced in the entity
• amount of intake, for goods that contributed to the capital
• at fair value, for assets obtained free

SEPARATE PURCHASE OF A INTANGIBLE ASSET

A. INTERNATIONAL APPROACH

Purchase price is cash or cash equivalents paid or payable for the purchase of intangible assets, including taxes and excise duties and not returnable, after deducting trading price reductions. Directly attributable costs include: [11]

- Employee benefits costs directly related by bringing restraint in its working condition;
- Directly attributable professional fees;
- The costs of testing operation of intangible restraint.

Non-cost in acquisition costs:

- The costs of launching and promoting the product on the market;
- Costs for the transfer of a business in a different location than the original;
- Administrative costs and other general manageemnt expenses;
- Initial operating losses.

Example:

Company "X" acquires software for managing the production process by the amount of 10,000 Euros. Becouse the company "X" is a faithful client of the company producing the software has received a price reduction of 5%. Fees paid to lawyers for proce ssing the transaction is 1,000 Euro, and administration expenses related to this purchase is 100 Euros.

Acquisition cost = Acquisition price + Direct attributable costs

<u>Determination of acquisition costs:</u>

- acquisition price	= 10.000 EURO
- commercial reduction (10.000 x 5 %)	= (500) EURO
- costs with lawyers fees	= 1.000 EURO
Acquisition cost	= 10.500 EURO

Administrative costs are not directly attributable costs and will not be included in the acquisiton cost of intangible restraint.

B. NATIONAL APPROACH

Property, entered the entity for consideration shall be accounted at acquisition cost.
Acquisition cost includes the purchase price adjusted for commercial discounts provided by the supplier (if any), import duties and other taxes (except those which the entity may recover from the tax authorities), the transport expences, installation and other expenses which can be directly attributable to the acquisition of intangible assets in question.

Another possibility for entry into a unit of intangible assets is bringing their *contribution to the capital*. In this case given intangible assets are valued by theyr contribution.
National regulations allow activation of *constitution expenses*. The entity can record in its active all the expenses paid or incurred in connection with the formation of society. If the entity decides to asses the constitution expenses, they will be recorded at initially cost.

EXAMPLE:

A group of people are willing to form a company with limited liability (LLC) which will have as object of trade dairy products. For the constitution were made the following costs:

- Study on the potential market for consumption in the region amounting to Euro 5000;
- Reservation of company name in the amount of EUR 100;
- Attorney fees for the preparation of the constitutive act in the amount of Euro 800 ;
- Fee auditor to assess the reliability of business amounting to Euro 1000;
- Notary fees and registration fees amounting to Euro 500;
- Purchase a laptop in order to contribute to the capital amounting to Euro 2000.

The company decided to asses costs up. Expenditure for the establishment recorded in the assets of the company are in the amount of Euro 7400. The laptop will be registered as a tangible asset.

According to national regulations will be recognized in the balance sheet as intangible assets and *advances granted* to purchase the assets of intangible nature.

CONCLUSIONS

As can be seen in the definition of intangible asset given by national regulations is introduced the character of identifiable assets, but without making further details on the characteristics of identification.

Compared to the definition given by international reference IAS 38, national norm includes in definition of intangible asset and the purpose for which are held by the entity.
Examples of assets that are included in the intangible assets: costs of establishing; costs of development; concessions, patents, licenses, trademarks, rights and similar assets, except those created internal by the entity ; goodwill ; intangible assets running ;other fixed assets ; advances given for the purchase of intangible assets.

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