INTANGIBLE ASSETS – AN OPEN ISSUE

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Abstract: *We live in an ever more competitive, globalized world, in continuous technological evolution. Optimal resource management implies detailed knowledge on the value of intangible assets. In the present article, we aim to analyze the issue of intangible assets from the perspective of the Spanish accounting system, in order to identify the similarities and differences between it and the Romanian accounting system. The purpose of our approach is to complete the stage of knowledge concerning intangible capital – the hidden fortune of the new economy.*

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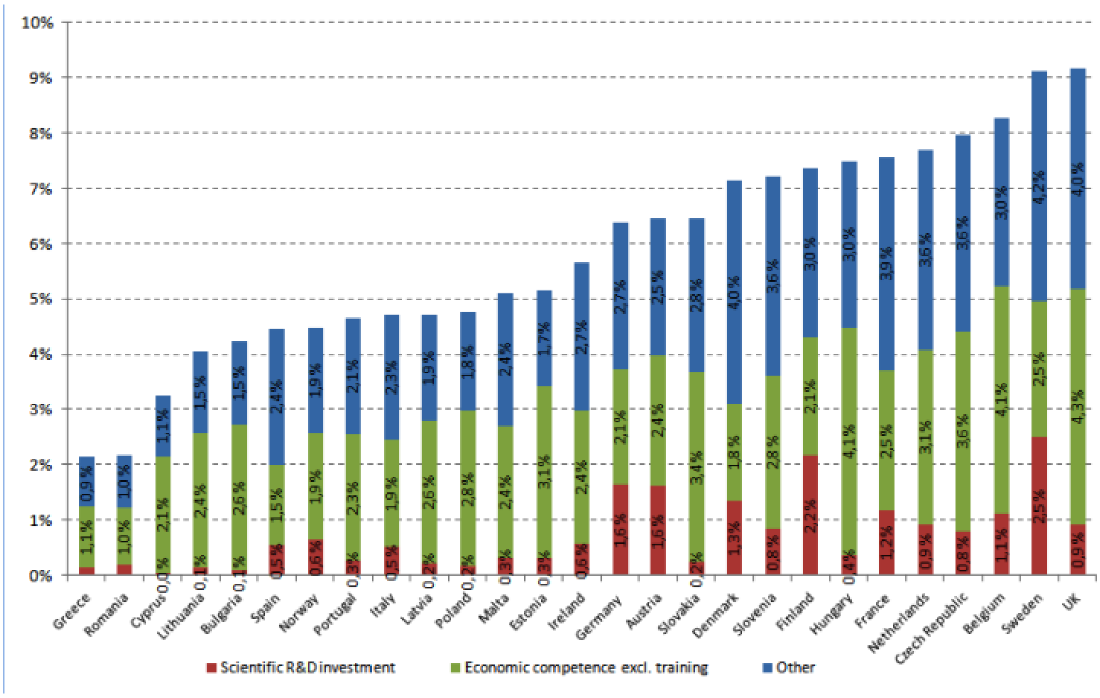
1. INTANGIBLE ASSETS IN THE SPANISH ACCOUNTING SYSTEM

Knowledge and intellectual capital are major determinants of innovation and thus of enhancing the growth, employment and competitiveness of the European Union. The importance of research and development activities and innovation is explicitly recognised in the 'Lisbon process' and in EU2020. However, our knowledge of the contributions of intangibles to economic performance remains incomplete. At the macro level, the national accounts data on capital formation focus primarily on fixed investments, and attempts to measure investment in intangibles, such as software, mineral exploration and artistic creations. The 2008-2011 INNODRIVE project, which ended in February 2011, gathered and measured intangible capital data. The main findings of the project are: the Gross domestic product (GDP) in the EU27 area is 5.5% higher after including all intangible investments; in the national approach, the intangible capital investment share of GDP was 6.7% in the EU27 and Norway, whereas only 1.1% is recorded in the System of National Accounts. Organisational competence accounts for nearly half of this, at 3.1% of GDP. The intangible share of GDP increased during the latter half of the 1990s, whereas the GDP shares have stayed mostly constant in the 2000s (Piekkola, 2011).

According to the data provided by the INNODRIVE project, investments in intangible assets account for approximately 2.1% of the gross domestic product for Romania, while in Spain this percentage amounts to 4.5 % of the gross domestic product for 2005.

Figure 1- Investment in intangible as share of Gross domestic product in EU countries (and Norway)-2005



Source: "INNODRIVE Intangibles Database, May 2011, http://www.innodrive.org/"

In Spain, in the last 15 years, the number of companies that have become leaders in their sector has increased through the creation and management of patents and trademarks. At present, these assets account for up to 75% of the value of a company (Clarke and Modet, 2011). As a natural consequence, the Institute of Analysis of Intangibles has been created, whose purpose is to generate a favorable environment for the gradual inclusion of intangible elements into the economic-financial analyses and to support the process of normalization of the accounting of intangible assets.

The Institute of Analysis of Intangibles (El Instituto de Análisis de Intangibles) stresses the need for homogenous normalization rules concerning the accounting of intangible assets. Companies, professional accountants, analysts and the financial markets require independent organisms to analyze, evaluate, and certify intangible assets using methods based on objective criteria.

In the new economy, intangible assets (trademarks, the corporate reputation, ethics and social responsibility, human, organizational, and technical capital) have become vital and strategic elements in the financial and accounting management of companies.

Concentrated efforts with the purpose of identifying and acknowledging intangible assets are also made by the European Center of Companies and Innovation of Navarra (Centro Europeo de

Empresas e Innovación de Navarra – CEIN), according to which the real value of a company does not come from financial-accounting statements. CEIN identifies intangible assets with intellectual capital, which it classifies into: structural capital, relational capital, learning capital, and human capital (CEIN, 2004).

Structural capital includes information and communication technologies, work processes, patents and management systems (ERP, databases, and economic management instruments).

Structural capital is the cumulus of knowledge that the organization manages to explain, systematize, and internalize, and which, in principle, can be latent in employees or equipment. This capital includes, in turn, technological capital (the ability to use knowledge and technology) and organizational capital (the set of tools and methods used to manage knowledge).

In order to determine the structural capital of a company, we will analyze the culture of the organization, its management model, its main products and services, the sector where it operates, its quality standards, its information and telecommunication systems, its distribution channels and the patents and trademarks owned.

Relational capital concerns the quality and sustainability of the customer base, the potential of a company to attract new customers, the market share, the relationships established with the providers, their typology, the possibility to substitute business creditors, the typology of the competitors, and the cooperation agreements.

Learning capital includes the policies adopted by the company with the purpose of creating an environment open to ideas and experiments, and is made up of creativity capital, which comes from the employees' ability to find valid solutions to the problems raised by customers or by the company itself, and innovation capital, which is the company's potential or ability to innovate (for example, developing new products and services).

Human capital represents explicit and tacit knowledge of the employees. The elements that compose human capital are: the human resources policy, the employees' training, internal communication that favors the exchange of ideas, the behavior and skills of the staff etc..

2. THE INTERNATIONAL ACCOUNTING STANDARD 38

The Spanish accounting system is harmonized with the International Accounting Standards (IAS) and with the International Financial Reporting Standards (IFRS). After the International Financial Reporting Standards have come into force, with a compulsory application for consolidated financial statements starting with 2005, and with the General Accounting Plan coming into force in 2008, a major change occurred in the Spanish accounting system in what concerns the acknowledgment, evaluation, and reporting of intangible assets. Intangible assets are the object of IAS 38, according to which an intangible asset is a non-monetary identifiable asset with no physical substance. Information concerning intangible assets can be also found in IFRS 3 "Company mergers" and IAS 36 "Asset deprecation".

The general frame of IASC establishes the acknowledgement criteria of the assets, which also apply to the acknowledgement of intangible assets. An intangible asset can be acquired or generated internally, but in either case it should be acknowledged only if:

- The asset is controlled by the entity as a result of past events;
- The entity expects the asset to generate future economic benefits;
- The cost of the asset can be measured in a credible manner; and
- The asset can be separated from goodwill.

According to IAS 38, internally generated goodwill is not acknowledged as an asset. Also, trademarks, logos, publishing titles, customer lists, and other internally generated elements with a similar substance will not be acknowledged as intangible assets.

In order to state if an internally generated intangible asset meets the criteria to be acknowledged as an asset, an entity divides its generation process into two stages: a research stage and a development stage. Intangible assets that come from research or from the research stage of an internal project will not be acknowledged as assets. The expenses for research or made during the research stage of an internal project will be acknowledged as costs when they are made. In the research stage of an internal project, an entity cannot demonstrate that an intangible asset exists and that it will generate future economic benefits. As a consequence, this expense is acknowledged as a cost when it is made. An intangible asset that came from development or from the development stage of an internal project will be acknowledged as an asset if and only if an entity can demonstrate the following:

- Technical feasibility for these intangible assets to be completed, so as to be available for usage or sale;
- Its intention to complete that intangible asset, so that it can be used or sold;
- Its ability to use or sell that intangible asset;
- The manner in which the intangible asset will generate probable future economic benefits. Among others, the entity can demonstrate the existence of a market for the products obtained using that intangible asset or for the intangible asset itself, or, if it is meant to be used internally, the usefulness of the intangible asset;

- The availability of technical and financial resources, as well as of other appropriate resources in order to complete its development, so that the intangible asset could be used or sold;
- Its ability to credibly evaluate the expense assigned to the intangible asset during its development.

Considering the restrictions imposed by the accounting criteria on acknowledging and presenting intangible assets, most of the information disseminated by companies is optional (Cañibano et al., 2009). A higher degree of dissemination of the information implies higher transparency, a better image and reputation, a lower cost of capital, but, at the same time, implies associated costs, for instance, for the creation of a competitive advantage to the rivals.

In general, Spanish companies publish limited information on intangible assets, as a result of the lack of a long-term vision, of the lack of knowledge on intangible assets, of not considering these assets as a source of value, and of the weak involvement of the management.

The consequence of the lack of regulations in this field has been the existence of information reports that are not harmonized from the point of view of their contents and degree of detail. An ever higher number of companies apply the recommendations of the RICARDIS project, providing information on the company's activity and objectives, on its strategy and know-how. The quantitative and qualitative indicators included in the reports on intellectual capital allow performing studies concerning the investments in intangibles, proving the company's ability to generate economic benefits.

3. INTANGIBLE ASSETS IN THE CONCEPTION OF THE ROMANIAN NORMALIZER

Romanian accounting norms are in accordance to the 4th and 7th Directive of the European Economic Communities. Order 3055/2009 for the approval of Accounting Regulations according to the European directives, published in Monitorul Oficial no. 766 of November 10, 2009, updated by Order no. 2382/2011 – for the completion of accounting regulations, by Order no. 2239/2011 – for the approval of the Simplified Accounting System, and by Order no. 2869/2010 – for the amendment and completion of accounting regulations, classifies intangible assets into creation expenses, development expenses, concessions, patents, licenses, trademarks, rights, and similar assets if they have been acquired onerously, goodwill to the extent to which it was acquired onerously, deposits and intangible assets under way.

Similarly to IAS 38, Romanian accounting norms mention the same criteria for acknowledging intangible assets: control, future economic benefits, credible cost and the ability to separate from goodwill. For the internally generated intangible assets, they require the separation of the activities into two stages: research and development, and intangible assets in the research stage are not acknowledged. Customer lists are not acknowledged as intangible assets.

Romanian companies quoted in the Bucharest Stock Exchange meet the provisions of OMFP no. 3055/2009, as well as those of the CNVM regulation, but only information strictly required by accounting regulations are presented, without insisting on the intangible side of the business. In reporting, mainly traditional financial-accounting indicators are calculated, and the results are interpreted exclusively from their perspective. Romanian companies are characterized by a low degree of dissemination of the information concerning intangible assets (Fădur, 2011).

Both Romanian and Spanish companies are confronted with the lack of a single, formal guide, which would treat the manner of drawing and presenting the reports on intangible assets, and this fact affects the degree of comparativeness of the companies.

CONCLUSIONS

Modern companies perform their activity in a globalized environment, characterized by competition, technological revolution, and the reversal of the balance in favor of intangible assets, which imposes reporting these new vectors of value creation. A doubt appears that the traditional accounting system offers sufficient and appropriate information for the decision-making process.

We draw the attention on the fact that it is fundamentally necessary for the specialists' efforts to be directed towards designing a standardized model for reporting reliable, comparable, and relevant information on intangible assets.

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