THE INTANGIBLE ASSETS INVESTMENTS CHARACTERISTICS AND THE ACCOUNTING TREATMENT

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In the knowledge-based economy the fundamental determinants of the enterprise value, in the present, have an intangible nature. The intangible investments are the most important factors of the enterprise success. Wealth, growth and welfare are driven nowadays by intangible investments. The knowledge economy is characterized by huge investments in human capital and informational technology. Despite of the increased importance of intangible assets, as the source of the firm` competitive advantages, the information regarding these kind of assets, both available in the inside of the firm and, which is presented to the externals, is pour. In this paper I present the reasons for this situation.

Keywords: intangible, investments, assets, accountancy, value
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1. Introduction

It is widely accepted nowadays that, at the begin of the 21th century, economy has become significantly different from the industrial economy previous to the mid-20th century. Economists consider that the main feature of this new economic environment is the essential role played by intangibles as a fundamental determinant of value creation in business companies.

Investment expenditures represent outlays by the firm made in the expectation of future benefits (Fisher 1930). The assets that are the result of the investments are utilized in the firms `activities in the future periods. These assets can be classified function on their nature in tangible and intangible assets.

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With the arrival of the new information technologies, the structure of firms have changed dramatically, shifting the focus of value creation from tangible based activities to intangible based value creation (MERITUM, 2002).

2. The accounting treatment of intangible assets investments

Despite of the increased importance of intangible assets, as the source of the firm` competitive advantages, the information regarding these kind of assets, both available in the inside of the firm and, which is presented to the externals, is pour.

To a big extent, this can be attributed to the restrictive requirements imposed by accounting standards, in most countries, for the recognition of intangible investments as assets in the financial statements. The current accounting regulation does not allow companies to capitalize a big part of investments in intangibles and to report these as assets in the financial reports. I refer to intangible assets that are produced by a company. There are inconsistencies regarding the book-keeping treatment of the two categories of intangible assets: internally generated and, acquired from the outside of the firm. Generally, the intangible assets independently acquired from the outside of the firm, are capitalized at the cost implied by their acquisition. On the other

part, the costs associated with developing internally generated intangible assets are treated as expenditures and are reflected in the revenues and expenses situation.
When it comes to the recording of internally generated intangibles, very little has changed during the last decades. Traditionally, the sums allocated to the internally generated intangible assets are treated as expenses not like investments that are capable to generate long term economic benefits. The expenditures on R&D, training, marketing are not treated as capital expenditures. As a result, these funds are not capitalized on the balance sheet. This is happening in conditions in which the value of intangible investments has increased very much during the time. The amount of unrecorded intangibles assets has changed enormously in last years being huge in the present.
As a result, the ability of financial statements to provide an accurate view of the firm's financial position seems of potential for future wealth creation. *The book value* of equity is the accounting estimate of the firm's value resulting from deducting debt from the book value of assets (the accounting estimate of the economic value thereof).
Therefore, the difference between the market value and the book value of equity is explained by the existence of intangible assets that are not reflected in the balance sheet.
The proportion of tangible assets to intangible assets has changed dramatically over the past 50 years. For example, in June 2000, Microsoft's physical and financial assets represented less that 10% of its market value, and those of Cisco only 5% (Lev, 2001).
In knowledge intensive industries a firm's book value is often lower than 10% of it's market value, of which the largest part are constituted by intangible assets such as relations to customers and business partners, a company's workforce, patents, trademarks or other intellectual property, organizational capital in form of superior business processes, organization structures and a unique corporate culture (Lev, 2001).

2.Intangible investments from an economic and accounting perspective. The results of research

Remaining this category of intangible assets outside of the financial situations should not be taken as evidence that businesses do not recognize the investment nature of intangibles, as they do. The absence of a great part of intangible assets from financial report is explained by the fact that it is considered that intangible investments have economic properties that, for the most part, do not fit into conventional accounting principles (L. C. Hunter, Elizabeth Webster and Anne Wyatt, 2005).
From an economic perspective, intangible investments are any expenditure not immediately embodied in physical matter, but which are intended to generate long-term benefits.
Intangible investments are only recorded in the accounting system, as assets, if the items meet the two categories of criteria (IAS 38): first, *the asset definition criteria* and, second, *the asset recognition criteria.*
As summarized in table 1, the asset definition criteria for intangible assets comprise three attributes: identifiability, control and, future economic benefits.
IAS 38 states an intangible asset as *identifiable* when it is:
- separable (capable of being separated and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract);
- or, arises from contractual or other legal rights, regardless of whether those rights are transferable, or separable, from the entity, or from other rights and obligations.
This requires apply whether an intangible asset is acquired externally or generated internally.
It is considered that an entity *controls* an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and, to restrict the access of others to those benefits (IAS 38).

The accountancy standards include *future economic benefits* as the main feature of an asset. These may include revenue from the sale of products, services, or processes but, also, includes cost savings or other benefits from the use of an asset. The benefits generated by intangibles are incorporated into the financial accounts, but not the value of the assets unless they are acquired from outside of the enterprise.
Recognition, usually, refers to the technical accounting term of whether the asset is included in firms' financial statements (K.P. Jarboe & R. Furrow, 2008).
The accounting standards stipulate that for intangible "resources" to be included as assets in an entities' balance, they must comply with:
a) The definition of intangible assets;
b) The recognition criteria established in accounting regulations.
The accounting regulations agree that intangible assets are non-tangible resources (that is, without physical substance), controlled by entities from previous transactions, that will provide future economic benefits to the entity.
According IASB (2001), an item that meets the definition of an element should be recognized if:
- it is probable that any future economic benefit associated with the item will flow to or from the entity; and
- the item has a cost or a value that can be measured with reliability.
If an intangible item does not meet both the definition of and the criteria for recognition as an intangible asset, IAS 38 requires the expenditure on this item to be recognized as an expense.
In table 1 are reflected the general criteria that must be satisfied for recognizing the intangible assets in financial reports (IAS 38).
The distinguishing characteristics of intangible assets render them in many cases outside this description.

Identifiability
For an asset to be recognized under current accounting rules, it must be able to be separated (divided) from other assets of enterprise and transferable to the other entities without the loss of value.
A major problem with intangible assets is that they are often difficult to identify separately, and thus, may not match one of the fundamental requirements for accounting recognition.
It is difficult to separate intangible assets from other intangible assets and, from current expenditures. Breaking up intangibles into discrete, separable entities is difficult. Certain types of intangible assets are easier to separate than others. This is the case of components of intellectual property.
Transferability is closely tied to the issue of separability. A major question defining an asset is whether it can be transferred to other parties without losing value. In the case of intangible assets this is possible only in some cases, as with intellectual property transfers. However, many assets are purely firm-specific and contain little if any value outside of the enterprise that they belong to (K.P. Jarboe & R. Furrow, 2008**).** Most firm-specific forms of human capital fit into this category, as do marketing and organizational capital.
Napier şi Power (1992) make difference between:
-entry separability;
-exit separability
Entry separability means that the asset can be identified as it is produced or acquired by a firm: it therefore requires that the costs of production or acquisition can be accurately assessed and identified with the asset. The accounting standards require the historical cost of an intangible asset to be ascertainable, as a basic premise for recognition.
Exit separability implies that the asset can be traded separately from other intangibles of the firm or from the firm as a whole.

Belkaoui (1992) distinguishes two main types of intangible assets: identifiable intangible assets such as patents, and unidentifiable assets, such as goodwill.
Identifiable (separable) intangibles are those which can be sold or acquired separately.
Unidentifiable intangible assets are reflected in enterprise GW and can not be transferable separately but only with the sale of the whole enterprise.
There are two basic views of goodwill: it may be understood as the consequence of a firm's above-normal ability to generate future earnings, or as a set of assets controlled by an acquired company but not reported in its financial statements.
The unidentifiable intangible assets obtained with the new company acquisition are named *external GW*. These elements including the clients, the name and location of the business, the market position, the structure of organization, prestige and creativity, human recourses, are recognized in financial situation and, are recorded as assets since they are valued in a market transaction. Intangibles that are bought as a complete set, externally through the market, are included as assets since they *have a verifiable cost*.
In contrast, *self-generated goodwill* or, *internal goodwill*, does not satisfy the accountancy requirements and can not be recognized as asset in the enterprise financial report. As a consequence internally investment in brand development, workforce skills and new innovations is expensed.

The Future Economic Benefits:
The accountancy standards include future economic benefits as the main feature of an asset. The intangible asset must have capacity to contribute, single or in combination with other assets, directly or, indirectly, to future net cash inflows.
The most obvious evidence of future economic benefit is a market price. The existence of the transaction and paying a price for a element is a prove of it`s recognized utility and of it`s capacity to generate economic benefits as a result of utilization
It is considered that any element that is bought and sold on the market can generate future economic benefit. And, any element that creditors accept in settlement of liabilities can generate future economic benefit. And, any element that is used to produce goods or services, whether tangible or intangible, and, whether or not, it has a market price, or is otherwise exchangeable, also generates future economic benefit. Incurrence of costs may be also significant evidence of acquisition or enhancement of future economic benefits.
The current accounting systems are based on transactions. The asset recognition criteria related to the probability of benefits generation is always considered to be satisfied in the cases of intangible assets that are obtained from outside of the firms, separately, or as result of business combination. In this case there is a price that is considered both prove of benefits generation, and a reliable indicator of the value.
Since the accounting data are relied upon by managers and outside investors, the accounting rules favor objective, verifiable valuations such as arm's-length, market-based transactions (L. C. Hunter, Elizabeth Webster & Anne Wyatt, 2005).
In the case of firm`s acquisition the value of intangible assets purchased (if the purchase price exceeds the book value of the assets) is reflected in the external GW. Because this type of goodwill is the result of a purchase, the accountancy principle allows recognizing it as a asset in balance-sheet. Thus, the purchase puts a value on the intangibles.
The real world phenomena that do not find the origin in past transaction (the elements of internal GW) are not considered suitable for recognizing in financial report (J. García-García & M. I. Alonso de Magdaleno, 2010).
The condition related to the probability of future economic benefits generation is not considered satisfied in the case of this kinds of assets because does not exist neither a benefits generation prove, nor a reliable indicator of the value.

Thus, the risk of these assets is generally higher than that of physical assets, so the property rights over these assets are often not fully capitalized by the company (J. García-García & M. I. Alonso de Magdaleno, 2010).
It must be rejected the argument that costs are assets. Although an entity normally incurs costs to acquire or use assets, costs incurred are not themselves assets. The essence of an asset is its future economic benefit rather than whether or not it was acquired at a cost.
In the efforts made in purpose of recognizing the intangible assets in the balance sheet there are many problems that must be solved related to determine whether future economic benefit will be truly available and, quantifying it, especially, if obtaining of benefits is far away.
The question that requires answer is: how can be treated an element in the following situations:
- in the case in which the value of estimated future benefits is highly uncertain or, even, doubtful;
- in the case in which the future benefits may appear during the short time;
- in the case in which the duration of obtaining benefits is highly uncertain.
The element must be recognized as asset in balance-sheet, expensed, or reflected as a loose? Expenditures for R&D are examples of items for which management's intent clearly is to obtain or increment future economic benefits but for which there is uncertainty about the extent, if any, to which the expenditures succeeded in creating or increasing future economic benefits (J. García-García & M. I. Alonso de Magdaleno, 2010).

The control

The accountancy standards require that for an entity to be able to consider an element in balance-sheet she must be capable to control an item's future economic benefits.
The necessary conditions to control an element are as following:
- the entity has capacity to obtain future economic benefits as result of owning and exploiting the asset;
- the entity has capacity to restrict access of others to these benefits.
The classical view of control over assets is based on scarcity. To enjoy an asset's benefits, an entity generally must be in a position to deny or regulate access to that benefit by others (J. García-García & M. I. Alonso de Magdaleno, 2010).
An entity, usually, gains the ability to control an asset's future economic benefits through a legal right. But the firm can appeal to other methods for this. One of the methods utilized is keeping secrets through the employer's confidentiality.
L. C. Hunter, Elizabeth Webster & Anne Wyatt (2005) mentioned that, generally, exist a limit regarding the enterprise capacity to control the estimated intangible assets benefits for two reasons:
- the domination of the production process by the people (and not by the equipments);
- the ease of copying non-embodied forms of intellectual capital.

Conclusions:

The accountancy standards has not taken steps to allow for the capitalization of most internally generated intangibles.The economic tension lays in the inherent property rights problem associated with the benefits from intangible investment: it is often difficult to obtain defensible property rights because the intangible asset is embodied, offen, in employees who cannot be owned. From an economic perspective, this problem does not change the "investment" nature of the expenditures. As a result, the ability of financial statements to provide an accurate view of the firm's financial position seems to have decreased over the last few decades, along with the increase in the importance of intangibles. The information provided by companies to the financial markets is primarily based on traditional tangible investments in fixed assets, whereas value is more and more relying on investments in intangible assets.

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