INTANGIBLE ASSETS – IMPORTANT RESOURCE FOR ENTERPRISE PERFORMANCE MANAGEMENT

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Abstract
Along time, the goal of intangible assets became very important for the activity and prosperity of business. This matter is achieved as well as more and more the companies operate in a global economy which has as main base the digital revolution and information management. The increase of the immaterial investments percent requires evaluation and recognition criteria by knowledge, intelligence and human competence. But recently, the accounting standards were about to accord negligible attention or even totally ignored the appropriate modalities of report this category of assets. The accounting, obliged to bend to economic, financial and juridical logics, in a „Taylor" modality, presents an unreal image of the company economic life and particularly of investment activity. In a competitive environment, the reliability of future economic benefits, generated by investments, depends less on their material or immaterial nature and more on the characteristics of the market they operate on. These are just a few reflections which determined us to focus our attention to this thought-provoking domain of immaterial investments, appreciated as a potential for the company.

Keywords: *intangible assets; immaterial investments; competences; intelligence; knowledge; competences; potential.*

Introduction

New potent (able) that brought them "information age" led to considerable renewal of the ways in which business is carried out.

Major trends that have broad implications on the performance of firms are: economic activity will continue to internationalize, markets for consumer and intermediate goods will become more sophisticated, the pace of technological change will remain rapid.

In this context, the performance capability of a firm depends on more than one distinctive resource of any company, as an economic system, namely **knowledge.**

What differentiates one from the other is "its ability to use all types of knowledge – from the scientific and technical up to the social, economic and management"[1] to achieve something that has value market.

As an universal social resource, knowledge is not a resource of a firm. A crucial resource of any company is located outside so, as its economic results which are obtained by "exploitation of opportunities".

Deep changes taking place in today's world of business involving the movement of forces driving economic growth, from matter and energy to information and knowledge. The process of "dematerialization" of economic activity changes the source value toward design and innovation activity, knowledge management and organizational skills.

In this context, intangible investments are becoming more important than material investments, by spending more and more significant that a company engages in the design, innovation, training, organization, or exploring new market opportunities.

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[1] Drucker P. – "Management strategic", Editura Teora, Bucureşti, 2001, p. 11

Business employing increasingly more spending in areas like research and development, staff training, production organization and marketing. These charges are intended to increase the competitive capacity of the company long term, creating value for shareholders.

Including all these costs in the category seems very risky investments because of uncertainty effects that entail:

- Knowledge and skills, in large part, cannot be dissociated from human or material resources (equipment) that incorporates, is hardly controllable by the enterprise;
- Irreversible nature of the expenses involved in training and research, further up the productive sphere, with lasting effects (strategic) to give them the status of invested costs, the risks of non-recovery;
- "perishability" accumulated knowledge and skills is often in a discontinuous and unpredictable world, requiring reconsideration and updating constantly.

Growing importance of intangible investments in increasing business

performance and competitiveness requires an approach and an appropriate accounting treatment for a relevant and reliable financial reporting.

1. Deficiencies of current accounting systems

Current accounting systems, whose tools and financial reporting practices are

still strongly imbued taylorism, difficulties in indentifying and measuring intangible investments.

The major difficulty comes from the absence of relationship "cause-effect" in recognition of intangible expenses such as investment and thus "activate" their balance sheet.

Balance sheet, by his role to represent the company's financial structure, offers, on the one hand, investors (or potential) ability to assess risk assessment estimated return on investment, and offers all guarantees of creditors, as legal protection, recovery amounts advanced temporarily. On the other hand, balance sheet, through the assets they represent, enables the potential capacity to provide liquidity entity.

Although dominated by conflicting demands, the accounting system should highlight the economic potential to support decision allows different categories of users.

Between the two components of financial statements there is a constant tension because they are interconnected and cannot serve different interests. The capital market is concerned primarily profit, at it is apparent from the income statement. If financial statements are primarily aimed at measuring earnings, this means that the balance will reflect "the results of the evaluation process residues"[2].

From this perspective, the accounting system pays excessive attention to short-term financial objectives, to assess business performance. The emphasis on the influence on the outcome of the exercise and financial reporting systems is justified by the speculative interests of managers. They, many times seeking to "invent" means to achieve levels of financial indicators assigned based on whether it is appreciated and the underlying activity remunerated.

The most dangerous consequence management by quantifying the financial indicators of short-term performance is encouraging that is type of behaviour to reduce the intangible investments and the precautionary principle should treat them as expenses in the period. It's vocation of the "informational asymmetry"[3], the precautionary principle may lead to harmful phenomena embellishment of images about wealth and business performance, which may represent an unfair attack on the relevance of accounting information.

[2] Epstein B., Mîrza A., - IFRS 2005 – Interpretarea şi aplicarea Standardelor Internaţionale de Contabilitate şi Raportare Financiară, Editura BMT, Publishing House, Bucureşti, 2005, p.32

[3] Feleagă N., Feleagă M – "Contabilitate financiară – o abordare europeană şi internaţională", vol.I, Editura InfoMega, Bucureşti, 2005

For short-term objectives, to maximize value creation for shareholders (by maximizing the profit or loss) is sacrificing long-term performance. Strategic abdication of responsibilities aimed at a lasting effect, increase the value of the company (through innovation, new markets and products, training and motivation, customer loyalty). Adaptability and even threaten the survival of the enterprise.

It is obvious that these charges, which produce medium and long-term effects that can be regarded is immaterial investments, must have an appropriate accounting treatment.

Forced to obey certain logic while legal, economic, financial, accounting presents a distorted picture of the economic life of the company, neglecting or ignoring for too long the appropriate methods for recognizing and reporting of these investments, assets (property) intangible. As a consequence, practice has not evolved beyond the traditional rules of historical cost.

2. Recognition and evaluation of intangible assets

After a long discussion, an international accounting referential addressed for the first time in detail the accounting for intangible assets by IAS 38 (enacted in 1998), and determining criteria for recognition, measurement bases and reporting requirements of such an assets.

Recognition of intangible assets requires compliance with the following key criteria:

- identifiable character of intangible assets;
- possibility of control over use of such property;
- their ability to generate benefits (economic benefits) of future credible assessment.

Character of an identifiable intangible assets requires it to be "distinguished from goodwill"[4]. Identification condition is satisfied if the intangible asset is separable (can sell, transfer, permit, lease or exchange and may distribute its future economic benefits, without undertaking to deprive future economic benefits from other assets used in the same activities). At the same time, intangible assets should flow from contractual or legal rights of another kind, whether those rights are transferable or separable from the entity or from other rights and obligations.

Identifiable intangible assets include patents, copyrights, licenses, software, marketing rights and know-how specialized. Feature that these elements have in common is nonexistent material substance, physical and having a useful life grater than one year, (determined or undetermined).

Certain intangible assets can be kept in or an object (support) physical: CD (in case of software), legal documentation (for a patent or a license). Clearing up confusion for their correct classification (as property, plant and equipment under IAS 16 or as an intangible asset after IAS 38) should appeal to professional reasoning to identify the relative importance or comparative basis, the most significant element.

For example, software that is part of the operating system (from a computer or computer equipment) is an essential component of that hardware and treated as tangible assets. If the software is not part of the hardware related equipment, it is treated as an intangible asset.

To ensure that only assets which are capitalized and deferred amounts recoverable in future periods is required, under international accounting referential, identification and recognition as more individualized items. This approach is useful because the residual value of acquisitions costs allocated is treated globally, in goodwill, whose impairment is less likely than an asset identified, thus providing less transparent to investors.

The ability to have control over the use of intangible assets: control involves the entity's ability to attract both benefits, future economic benefits arising from their involvement property.

Usually, the entity to obtain or protect their ability to control the legal rights as registered copyrights, patents, restrictions on trade agreements (if this is allowed) or legal coercion of employees to retain confidentiality.

[4] Standardele Internationale de Raportare Financiara, Interpretari la 1 ianuarie 2005, Editura CECCAR, 2005

In the absence of these rights, the entity cannot usually sufficient control of the economic benefits expected from teams of professionals and training programs and training and through specific technical or management skills.

Thus, considerable costs incurred for staff training, building a portfolio of customers, market share, customer or their fidelity can still be recognized as intangible assets, although these expenditures are investments in marketing and as “engines” that bring profits long-term.

“A balanced company is the research and development department and marketing at sharing responsibility to achieve a successful market-oriented innovation”[5]. In practice, however, characterized inter-relationships, often by rivalry and mutual distrust, determine missing several good opportunities.

Creating a foundation for constructive cooperation can only be in the interest of the company, but being aware that each carry a potential impact depending on customer satisfaction and thus to attract economic benefits for the firm.

Advantages (benefits) that may be associated with future economic intangible asset may take the form of revenue from selling products or services, savings, cost reductions and other economic benefits resulting from the use of intangible asset to the firm.

However, is recognition of an intangible asset conditional probability that the economic benefits attributable to it to return the entity. Evaluating the likelihood of the future economic benefits must be made on the basis of rational calculations that represent the best estimate for the set of economic conditions existing during the life of the asset.

Use reasoning to assess the safety associated with its future economic gain intangible asset is based upon the evidence available to initial recognition, giving priority to external evidence. Calling at fair value, determined primarily by reference to an active market or, failing that, using the best available information involves determining the present value of cash flow, adjusted according to the probability of its realization and the time value of money. Even at a low probability of occurrence of cash flow, fair value is considered as can be determined, and the asset will be recognized.

At the international level referential rightly converge more and more opinions to reflect the probability assessment of an asset, instead of its use as a threshold criterion of recognition, which will lead to amendment of the framework.

Credible evaluation of intangible assets is contingent on how to obtain them, such as initial assessment is done at their cost of production.

For a separately acquired intangible asset, the price paid for getting to the expectations about the probability that future economic benefits associated with immobilization purchased to return the enterprise. In other words, the effect probability is represented in the cost of immobilization. Or acquisition cost includes purchase price, including tax and excise duty stranded plus costs directly attributable to the intentional use immobilization preparations (handwork including employee benefits, arising directly from bringing the asset to its operating condition, professional fees arising from the same end, the costs of testing the proper functioning of immobilization). As in the case of tangible assets (IAS 16), capitalization of costs ceases when the intangible asset is ready for its intended use.

In many case, are internally generated intangible assets. Baseline to which they are recognized as assets is difficult to determine due to the nature of these categories of property, for which many were committed to spending at the time of their recognition as an asset.

Expenditure on intangible assets are getting treated according to the stage where they are involved in their creation or in the research phase or stage of development.

The whole reasoning is based on credible evaluation of the project concept (as a set of joint actions and schedule for a particular purpose). Capitalization of expenses incurred in obtaining an intangible asset is subject to their reliable measurement using a customized project.

[5] Kotler Ph. – Managementul marketingului, Editura Teora, Bucuresti, 2005

In the research phase of an internal project, expenditure on activities whose purpose is to obtain new knowledge, searching, delivering, evaluating and selecting alternatives. These costs are recognized as cost in the period were employed.

The development phase of an internal project involves expenses that can be capitalized of it is demonstrated the technical feasibility of completing, the intangible asset, intending to complete their ability to use or sell the restraint, the mechanism by which future benefits will likely evolve the ability to assess credible cost attributable to immobilization during its development.

In practice, the distinction between research costs and the phase of the development phase is, in many cases quite difficult.

Categories of assets that brand-names, may be difficult to estimate values that meet the criteria for their recognition as separate assets of internally generated goodwill. Not recognize them as assets is justified by the principle of prudence, capitalization of expenses involving failure to uncertainty rather than on evaluation methods with the volatile nature of their value. Hence the unequal treatment of acquired intangible assets from internally generated is not limited to their initial recognition, but it also regards their depreciation policy. The life of an intangible asset may be very long or even indefinite. Uncertainty justify caution to estimate the duration of her life, but life does not justify an unrealistically short. There may be both economic factors and legal factors that influence the life of an intangible asset. Economic factors determine the period in which the company will receive future economic benefits.

Legal factors may restrict the period in which the company controls access to those benefits. Life is the shortest of the periods determined by these factors, and the depreciated value of intangible assets will be allocated on a systematic basis over the term.

The life of an intangible asset is regarded as an undetermined time based on analysis of all factors (intended use of the asset by the enterprise, the typical life cycles, technology usage, commercial or other types of wear, stability domain, the expected actions of competitors, the costs of maintenance, control over the immobilization period, depending on the asset useful life that of another asset) there is no foreseeable limit to the period during which the asset is expected to generate net cash flows for the enterprise. In this case allegedly immobilization test for impairment under IAS 36, recoverable value comparing the carrying amount annually and whenever there is evidence that immobilization may be impaired.

Conclusions

The issue of recognition and evaluation of intangible assets, for which we tried to point out some defining elements, continues to incite controversy more so as, in a society marked by competition and change, the estimate of future benefits arising from investment depends less on the nature material or immaterial, and features more than the market within which it operates (the degree of competition, rapid technological change).

Relevance and reliability of accounting information claiming an appropriate accounting treatment, and international bodies (IASB and FASB) accounting standard – they put on their agenda a long-term joint project of accounting for intangible assets.

For now, the accounting regulations encourage (with out requiring) companies to disclose in the notes the categories of investments that have an impact on long-term performance of the company, but not above the threshold limiting their recognition as assets (IAS 38) in the balance sheet.

Accounting evolution is slow and there is always a gap between the volume of investments and intangible assets recognized immaterial, because you cannot make a reliable assessment of all components involved in the investment process.

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