

## APPROACHES CONCERNING ACCOUNTING OF INTANGIBLE ASSETS

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**Abstract**

Given the importance of intangible assets in the company the paper aims to establish criteria for recognizing and measuring these assets through which the company can not only reflect the true value and its carrying amount. The main objective is to formulate a logical definition of intangible assets in accounting terms that allows their recognition in financial reporting to help build an accurate image of the company. It will demonstrate how important intangible assets for a successful company are and how they can help develop the economy and especially the Romanian economy.

The secondary objectives are:

- Setting limits in the valuation of intellectual capital from the point of view of internal control and external
- Create a new post in the balance sheet to include this related value

**Keywords:** *intangible assets, intellectual capital, knowledge economy*

**JEL Classification:** *M 41*

**I. INTRODUCTION**

The contemporary economy is facing many problems created by the current economic and financial crisis, generating different opinions on resolving it as quickly and efficiently.

In the last decades of the twentieth century is increasingly used the concept of „*new economy*” as a new approach related to economic science. In the new economy and the knowledge society, based on human intelligence and creativity, intangible assets such as knowledge and information management skills are becoming the new kernel.

Basic concepts in the knowledge economy were mentioned by Peter Drucker in his book „*The Effective Executive*” (1966), which describes the differences between manual workers (who work with their hands and produce goods and services) and so-called „*knowledge worker*” (which works mainly with the mind, not with your hands and produces ideas, information and knowledge).

From the perspective of the knowledge society, România is at the beginning. Investing in human capital and investing in technology, know-how, research and development are just beginning to be felt.

In this new economy, we talk more of intangible assets, difficult to quantify according to the parameters of traditional financial statement and difficult to attribute an economic value accounts.

Given the importance of these intangible elements, more and more authors have tried to describe and analyze the impact on the evolution of the company, but not enough to include them in a separate category in the balance sheet, this area of research is still in research.

Starting from the assumption that any company would like to know the fair situation of its business, we point out that in order to create a „*perfect*” theoretical model of balance sheet, it is necessary to understand the essential characteristics of each patrimonial element that contributes to the overall value of the company.

According to the new perspectives supported by endogenous growth theory and other approaches, the traditional production factors (natural resources, labor and equity) gradually have decreased importance. At the same time the importance of intangible assets has increased, such as information, knowledge and creativity. Therefore, an entity may now be defined as competitive not only according to economic and financial resources but also by its intellectual patrimony.

Economically, knowledge becomes an essential element of achieving high productivity and competitiveness for companies, economic sectors and national economies. At company level, knowledge is reflected in the labor force (human capital), the requirements and preferences of customers (customer share) in products, processes, capabilities and its systems (structural capital).

As a result, the value of intangible assets may exceed the value of tangible assets. For example, stock quotes for renowned computer firms or electronics demonstrate that their exchange value is ten times the value

of held tangible assets. We can anticipate that in the not so distant future, firms will take into account when assessing their capital, knowledge as a distinctive and often substantial component. So far, this does not happen.

The economy is not synonymous with intangible knowledge economy or knowledge economy. The intangible economy is regarded as a „*triumph of bits over atoms*”.

For better understanding of intangible assets based economy, the literature propose an approach from three different perspectives: the demand perspective - intangible patrimony that may constitute a final product for consumption, a supply side perspective - intangible assets used by firms to establish and maintain their competitive position (this includes brand, intellectual property, human capital, research and development, information, know-how) and the perspective of the economic system - a set of interrelated trends that affect all economic activities, thus changing the nature of economic transactions and market structures.

In attempting to clear the delays occurred in various accounting and assessment practices, compared with global economic developments, there have been many debates about the role and importance in an intangible asset.

Economic and social environment in which economic entities currently operate have reached a level of complexity that cannot be compared with the previous one, them being in a position to play a context dominated by non-linearity and discontinuity of economic phenomena, changes occurring at a rapid speed up.

Accordingly, intellectual capital is the most important source for the entity, able to provide competitive sustainability. It is important to note that all economic and financial information and information with qualitative-quantitative character relating to intellectual capital helps or supports company management in identifying and underpinning the strategic decisions.

Creating intangible patrimony resources requires effort and periods of time superior to any other type of resource acquisition, which clearly assigns a particular characteristic: uniqueness.

Another noteworthy aspect is that inappropriate presentation of intangible assets may have negative effects on the company's reputation, but firstly it will lead to the loss of economic and financial significance of communication to external stakeholders. As a consequence of stakeholders, the knowledge economy is the only mechanism to ensure rapid economic growth.

This paper gives economic agents real opportunities for highlighting and enhancing intellectual capital, intangible assets in general.

## II. CURRENT STATE OF KNOWLEDGE CONCERNING THE DEFINITION AND ACCOUNTING CLASSIFICATION OF INTANGIBLE ASSETS

Over time, intangible assets have been defined in the literature by several authors, Th. A. Stewart remaining the reference author to other studies that followed. In its paper „*Intellectual Capital: The New Wealth of Organization*” (1997) he argues that intangible asset is the „*whole intellectual material - knowledge, information, intellectual property, experience that can be used to create value*”.

Another definition, belonging to Carnegie (1902), argues that the only intangible capital an organization holds that is the knowledge and skills of its employees. The productivity of this capital depends on the efficiency with which its members share those skills that they can use.

The new economy represents a validation of the vision expressed nearly half a century ago by John Kenneth Galbraith, when he first suggested using the term intellectual capital. (Ross, et al, 1997) According to other authors, however, intellectual capital is the dominant force, the most abundant element in the new era. (Rifkin, 2000) In the New Economy there can be found ideas, concepts, images and not the founding components of value.

Whether it is an „*old*” or „*new economy*” concept, one thing is certain: the survival and competitiveness of a company depends on the rational allocation of intangible assets. (Lev, 2001)

In light of the definition given by the OECD (Guthrie, 2000), intellectual capital is the economic value of two categories of company's intangibles: organizational capital (structural) and human capital. Structural capital refers, for example, to information systems, distribution networks and supply chains. Human capital refers to the organization located in human resources (employees) and resources outside the organization (customers, suppliers).

In the economic doctrine, there are different definitions on intellectual capital, for example, Kaplan & Norton (2004) separate the intellectual capital, intangible assets and knowledge assets, unlike other authors, supporters of opposing views, which assign the same meaning for the three terms. (Stewart 1998, 2001, Lev, 2001)

The solid definition assigned to intangible assets was given by Lev (1999), one of the most respected researchers in the field, which he considers to be intangible resources capable of generating future economic benefits that can be controlled or at least influenced by entity and that were obtained as a result of events or

previous transactions (for example obtained personally or purchased) and may not be sold or separated from other assets. The definition fully coincide with the one assigned by the International Financial Reporting Standards (IAS/IFRS).

In literature there are different views on some aspects of analyzing intangible assets. For example, in the opinion of Edvinson & Malone (1997) Intellectual capital is knowledge, applied experience, professional skills and customer service that jointly are able to provide competitive advantage.

Instead, Sullivan (2001) speaks of knowledge that can be turned into profit, while Lev (2001) defines intangible resources as real intangible assets that serve to create future benefits, without a material structure or physical appearance, which includes intellectual capital.

The consequence of this approach is that intangible capital consists in that the market value of a company depends not only on its financially capital accounted but also on its unaccounted intangible capital. For example, statistics from 2004 show that Microsoft's market value was \$ 286,2 billion, while the financial value was only \$ 57,5 billion, which means a ratio of 5,0 in favor of intangible resources. The eBay market value was \$ 54,5 billion, and the financial one of \$ 4,9 billion, yielding a ratio of 11,1. (Dess, G.G.,et. al.,2006)

This has been highlighted by numerous authors (Teec 1986; Edvinson & Sullivan, 1996) who consider intellectual capital as the ensemble of resources and intellectual assets that contribute to determining the market value of a firm.

Based on this analysis perspective, (Brookings, 1996) states that the patrimony is made of intangible assets that do not appear in the balance sheet, because its value could be obtained as the difference between the market value of the company and its carrying amount.

Nick Bontis (2002) is one of those who demonstrate that measuring intellectual capital has become a key area of research for researchers and practitioners.

Therefore intellectual capital is the main driver of economic value in the current economy, known as a knowledge economy (Mauritsen,et.al. 2011).

Moreover, (Grosu, 2013) notes that the new knowledge economy alters the classical parameters and the existing rules in the context in which the company operates.

Until now, most authors have treated positively the intellectual capital, because it was not yet put into practice and no errors were found. Charl J. Briton, in an interview, said that the knowledge economy will only ward off entities from their activity encouraging speculation and affecting whole industries. Big companies only develop by serious production.

His opinion may be wrong because major entities invest in intellectual capital to bring benefits to company's future, to encourage production and to increase the number of customers. There would be no purpose in intangible investment if there was no physical support that should be promoted with their help.

A concrete example where intangible assets stand out is Coca-Cola. As states Roberto Goizueta, former CEO of Coca-Cola: *„Even if all our factories and facilities would burn to the ground overnight, they would not be able to seriously affect the company's value: all this value is, in fact, the goodwill provided by our brand franchises and collective treasure of knowledge in the company”*.

This could not be applied to a certain entity, without a created brand: a donut shop on the street corner will not survive after burning because the customer will soon find another place to eat and the old one will be forgotten, the company failing to rebound.

### III. DEFINITION AND CLASSIFICATION OF INTANGIBLE ASSETS

#### 3.1. Defining the intangible assets according to IAS-IFRS

An asset is by definition a resource controlled by an entity, result of past events and which is expected to generate future economic benefits.

An intangible asset is an identifiable asset, non-monetary, without physical substance. For example, licenses, patents, software, intellectual property rights, trademarks.

Intangible assets are divided into two categories according to IAS 38: goodwill and research and development expenses.

Goodwill is defined as the future economic benefits arising from assets that are not individually identifiable and separately recognized. Basically, goodwill is the difference between the cost of purchasing a business and the fair value of identifiable assets and liabilities acquired. IAS 38 does not allow the recognition of internally generated goodwill and brands.

For research and development expenses the question is whether they should be recognized as expenses when they arise or as asset. Their recognition as an asset should be carried out, if and only if, the asset definition is met: future economic benefits are likely and the cost can be reliably measured.

According to IAS38, no intangible asset arising from research shall be recognized. Examples of activities included in research expenses: the pursuit of obtaining new knowledge, finding and assessing alternative product or process, formulation and design of new or improved alternatives to existing products or processes.

IAS 38- Intangible assets provides the basis for measuring intangible assets separated from goodwill:

1) Intangible assets acquired separately are evaluated at their acquisition cost, which includes purchase price, plus any costs directly attributable to the asset.

2) Internally generated intangible assets are evaluated at production cost represented by direct expenses made only after the date at which the development costs of a project researched development are recognized as generating an intangible asset (i.e. a patent invention). Direct expenses include expenses for raw materials and services, personnel costs, expenses for recording of the intangible assets resulted.

3) Intangible assets acquired through a government grant (i.e. user rights at airports, broadcast licenses to radio or television, import licenses or quotas for access to certain restricted resources) are initially recorded either at fair value or at nominal value (which includes expense attributable to asset for the preparation of its use), depending on the option of the enterprise.

4) Intangible assets acquired in exchange for other assets are valued at their fair value, except where either the exchange transaction has no commercial character or the fair value of intangible assets that are traded cannot be reliably quantified. Accordingly, acquired intangible assets are recorded at the carrying amount of the asset given up.

5) Identifiable intangible assets acquired as part of a business combination are recorded at fair value at the acquisition date, provided they meet the recognition criteria. The most credible estimation of the fair value of an intangible asset is the current bid prices on an active market of identical or similar intangible assets. IAS 38 also states the possibility of estimating the fair value of intangible assets acquired in a business combination through techniques of indirect estimation, which involves applying either of the multiplier on some form of income or the method of updating exemption / economy net fee or by discounting future net cash flow generated by an intangible asset. (CECCAR, IAS 38, 2013)

Other important specifications of IAS 38 are:

- evaluation of intangible assets is made at fair value;
- an intangible item reported as current expenditure can not be recognized later as part of the cost of an intangible asset;

subsequent expenditure incurred with an intangible asset will increase the cost of that intangible asset only when these expenditures will enable the asset to generate future economic benefits than originally anticipated performance and can be measured reliably; (CECCAR, IAS 38, 2013)

- they are not recognized as separate intangible assets:
  - Formation expenses;
  - Expenditure for professional training;
  - Customer lists;
  - Internally generated goodwill.
  - intangible asset called assembled workforce cannot be recognized as a separate intangible asset
  - as a result, finally, when it is necessary for registration in the balance sheet, the value of labor trained should be included in goodwill.
- the express reference of IFRS is that in the case of a business combination, the acquirer recognizes separately from goodwill, a larger number of separate intangible assets, to ensure a more accurate reflection of the entities' patrimony; (CECCAR, IFRS 3, 2013)
- revaluation of intangible assets subsequent to their initial recognition and the adoption of model-based revaluation is done at fair value which must be determined solely by reference to an active market, ie a market that fulfills the three conditions:

(a) the items traded in the market are homogeneous;

(b) willing buyers and sellers can normally be found at any time; and

(c) prices are available to the public.

- depreciation is allowed only for those that have a finite useful life, the depreciable amount being the cost of the asset or other amount substituted for cost, less the residual value;
- in the case of intangible assets with indefinite useful life, rather than recording depreciation, an impairment test will be done annually;
- residual value of an intangible asset with finite useful life finished, it is considered to be zero, unless, at the end of that term, there will be an active market in which to sell the asset or there is an obligation to a third party to purchase the asset. Also, the residual value can be positive, when the useful life is less than the economic life and the company owner intends to sell the intangible asset before the expiration of economic life.

At each balance sheet date, according to the requirements of IAS 36- Impairment of Assets, an enterprise should consider whether there are indications that intangible assets have lost some of their book value. If any such indication exists, the enterprise should determine the recoverable amount of intangible assets, defined as: „*The highest value between the value in use of the asset or cash-generating unit and the fair value less costs for sale*”; also, IAS 38 requires a test for impairment annually, regardless of whether exists or not an indication of impairment, in the following two cases: (CECCAR, IAS 38, 2013)

- (a) for intangible assets with indefinite useful life and those that were not introduced in use
- (b) for goodwill purchased following a business combination;
  - when two or three approaches to value are used, the result is selected from the most credible approach and is not an arithmetic average;
  - if two of the same methods of assessment procedures are used and two different (but close) values are obtained, it can be proposed that the final amount is an average of the two results;
  - always the result obtained following an assessment is privileged, which is based on direct market information

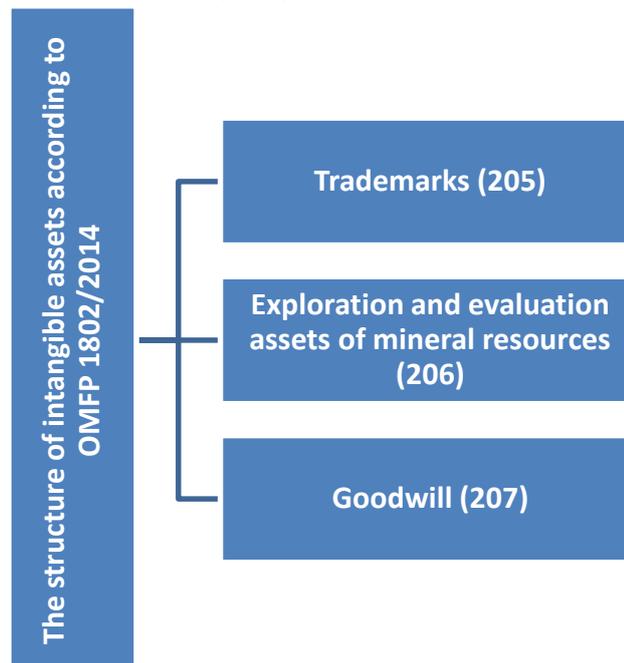
**3.2. Defining intangible assets according to the national accounting standards**

According to the accounting legislation in România, intangible assets are defined as: non-monetary identifiable assets, without physical substance that are held for use in the production or supply of goods and services, for rental to others, or for other administrative purposes. (OMFP 1802/2013)

A classification of intangible assets in the Romanian legislation complies with IAS 38 classification, ranging: costs of setting, development costs, concessions, patents, licenses, trademarks, copyrights and similar assets, goodwill, other intangible assets in progress and advances to suppliers of intangible assets.

According to OMFP 1802/2014, the main intangible assets over which changes have occurred or whose presence was unknown in the old national accounting legislation (such as OMFP 3055/2009) are shown as in the figure below:

**Figure 1** - Intangible assets that have undergone changes in accounting treatments according to OMFP 1802/2014



According to OMFP 1802/2014, the mark is that asset related to a distinctive product or service used by economic entities to distinguish their goods, works and services to those identical or similar to of other entities in the country or abroad.

Depending on the specific activity of the owner, we can distinguish:

- factory mark,
- trade mark;
- service mark.

Acquisition of trademarks causes changes on total assets (+) and debt (+). Contribution in kind of a trademark will cause changes on total assets (+) and debt to associates / shareholders (+).

Trademarks will be written off as all fixed assets.

According to OMPF 1802/2014 „*future costs related to trademarks (whether externally acquired or internally generated) are always recognized in profit or loss account when incurred. This is because such costs can not be distinguished from development costs as a whole entity.*”

Regarding intangible exploration and evaluation of mineral resources (account 206), this is a new account introduced by OMPF 1802/2014. With this account is kept records of intangible exploration and evaluation of mineral resources recognized as intangible assets.

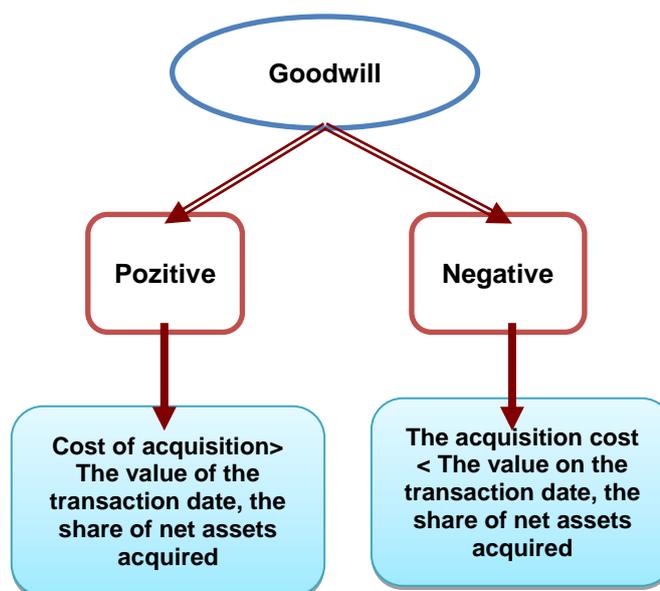
In circumstances where a company would purchase or freely receive intangible exploration and evaluation of mineral resources, it could influence financial position by increasing fixed assets, while increasing balance sheet liabilities (accrued income and liabilities of the company).

If the company would make on their own intangible exploration and evaluation of mineral resources, then it would influence the outcome of the exercise, because it would increase revenues, for which would increase profit for the year.

At the exit of administration of intangible exploration and evaluation of mineral resources we use either account 280 (if fully depreciated) or 658 (if partially depreciated). Depreciation of these assets is determined by the length of their useful life.

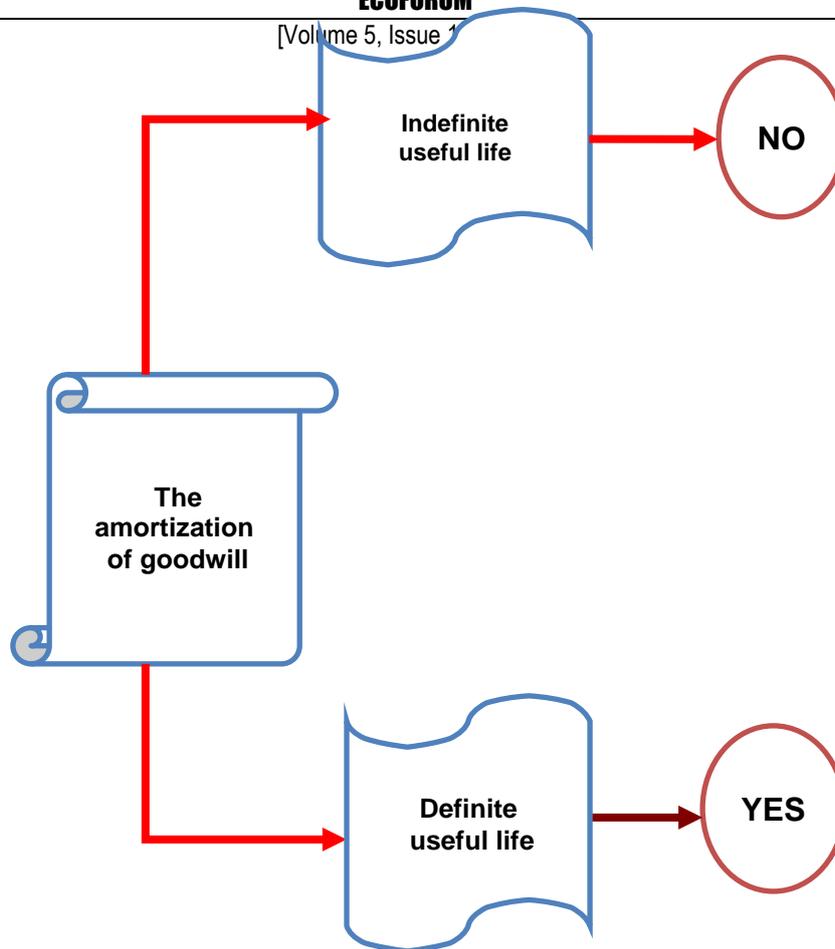
As defined in OMPF 1802/2014, goodwill includes expenses incurred by the company in order to maintain and develop business potential. It results from the interaction of some difficult measurable factors: company reputation, ford commercial, customers, the competitive environment, market share, quality of staff hired.

**Figure 2** - The nature of goodwill and accounting implications



Another important aspect that should not be ignored is the goodwill amortization. For a clearer understanding, we present the conditions in which this asset is or it is not subject to this process in the diagram below:

**Figure 3** - The amortization of goodwill according to OMPF 1802/2014



So, as it can be seen, in Romania, the adoption of OMFP 1802/2014 provides that into individual annual financial statements, expenses and extraordinary income will be included in operating costs and revenue.

By adopting OMFP 1802/2014, legislation on Individual annual financial statements was harmonized with the international standards IAS / IFRS.

**IV. IDENTIFIABILITY OF INTANGIBLE ASSETS**

For an intangible asset to have a quantifiable value in terms of economic analysis, it needs to possess certain additional attributes: (Faighenov,2007)

- to generate to the owner / user a certain amount of measurable economic benefits; this can result either from an increase in income or as a result of cost reduction; sometimes such benefits are measured in comparison to the size of the available results given the absence of intangible asset that can be measured in several ways: net profit, net operating profit, net cash flow;
- To be able to increase the value of other assets with which he is associated; such assets could also include all assets of the enterprise.

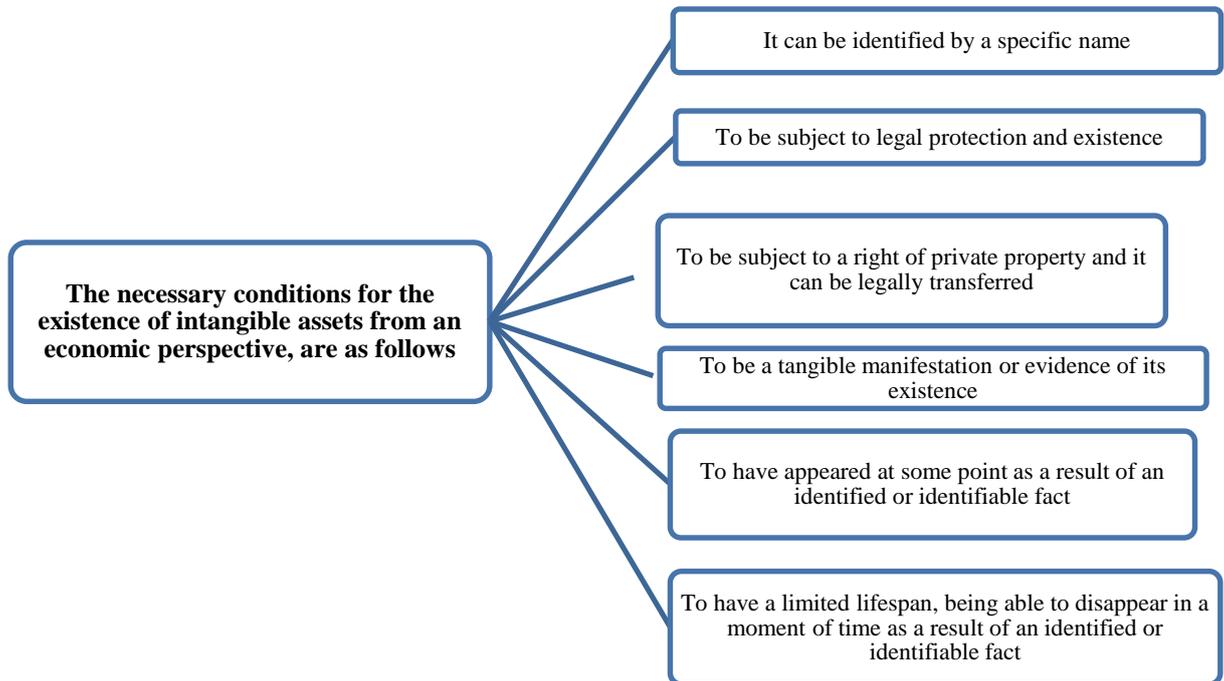
Sometimes the term „*intangible assets*” is considered synonymous with the term „*intellectual capital*.”( Anghel, et. al. 2006)

OECD definition achieved yet the distinction, by locating intellectual capital as a subset of intangible assets rather than a basic intangible asset of the company. As a result, there are incorporeal elements by the nature of intangible assets which logically they are not part of the intellectual capital. For example reputation can be the result of a judicious use of the intellectual capital but is not part of it. From the historical point of view, the distinction between intellectual capital and intangible assets was initially very vague. Intangibles were referring to the goodwill and intellectual capital was considered part of goodwill.

Recently a number of classifications have refined the distinction between intangible and intellectual capital, separating the latter into several components:<sup>(1)</sup>

- capital related to customers (external);
- structural capital (internal);
- human capital.

**Figure 4 – Necessary conditions for the identification of an intangible asset**



The mere economic existence does not confer intangible assets also an economic value. For example, a trademark that it is not used to produce income has economic existence throughout the period of protection, but no economic value, and therefore cannot be recorded as intangible assets. In order to acquire economic value it should generate effects.

However, a trademark that does not contribute to any income but it is used as a barrier to entry may have both economic existence and economic value. (Cocoş, 2005) The definition of intangible assets should state that they have an intangible nature, are specific to a business, have both economic existence and economic value, even if it is indirect.

Economic phenomena that do not meet specific attributes described above may not be regarded as separate intangible assets. This is the case of descriptive phenomena as:

- High market share of the owner / user;
- High profitability of the owner / user;
- A generally positive reputation of the owner / user;
- The monopoly position of the owner / user;
- Other economic phenomena.

Although these „descriptive” conditions are not classified as intangible assets, they could indicate the existence of distinct intangible assets that have economic value.

Control in the context of defining intangible assets means the ability of the company to obtain economic benefits from owning and operating asset and to restrict the access of others to those benefits.

For an intangible asset control is normally provided by law: a franchise or license enables the company the access to benefits over a fixed period; a patent or a trademark restrict the access of others to those benefits.

In the absence of legal rights, control, however, is more difficult to demonstrate. Nevertheless, the control may be achieved by means of physical custody. This would be the case if, for example, technical and other knowledge obtained from research activities are kept secret.

In the event that it is estimated that an enterprise will be able to obtain future economic benefits, but they are not controlled by legal or physical custody, is deemed not to have sufficient control over those results in the recognition of intangible assets generator. (Anghel, et. al., 2006, p. 47)

An enterprise could benefit from a portfolio of customers or a team of skilled staff. (Suciu, 2004) Although it can be appreciated that there is a high probability that the portfolio of clients to continue to seek professional services of that enterprise or that the group of experts to continue to offer its services, in the

absence of legal or physical custody of clients or staff, the enterprise has insufficient control over the expected future benefits determined by their presence, not being meet the conditions for recognition as assets.

A product can be associated with one or more intangible assets. For example, a particular medicine can be associated with several legal rights:(Andriessen, 2000)

- The sole right production ensured by a patent;
- The right to market under a trade mark, provided by holding the trademark ownership;
- The right to protection of the packaging used in product distribution.

Each legal right is not necessarily a separate intangible asset. In order to be considered as separate intangible assets, legal rights involved in selling the product and obtaining income must be independent of each other which means that they must satisfy the following conditions:

- Their values of achieving can be measured separately;
- Cash-flows associated with each can be valued separately;
- to have the possibility to separate their alienation.

If there is a possibility that production and distribution rights to be evaluated and negotiated separately, they can be registered as separate intangible assets.

However, it may be unlikely that the process of distribution can be further divided. The brand name and protection on the packaging could be part of the same intangible assets.

## V. CONTRIBUTIONS ON IMPROVING THE ACCOUNTING TREATMENT OF INTANGIBLE ASSETS

Internationally, intangible assets are recognized by large companies and are an important element in their comparative analyzes on competition.

In Romania the concept of intangible assets it is not recognized and appreciated at its true value by most entities, they interacting on national and international markets with a major handicap, their financial statements not reflecting a true image of the business.

It is natural that in an increasingly globalized economy, a vital factor for competitive economic success on long-term to be the knowledge. The real value of a company cannot be fully expressed through traditional systems of financial and economic assessment, but requires and imposes quantification innovative models able to present qualitative elements which incorporate the characteristics of assets in a company. Hence results the importance of identifying and positive awareness of the intangible elements intervening in the value generated by the company's management.

Studying definitions and theories regarding the intangible assets are not sufficient to identify how much of the value of the company and hidden intangible assets contribute to increased economic benefits.

Given the success of American, Asian or European companies and the ways that have created and highlighted an internationally recognized brand, the paper analyzes which is the main element that made them to create and emphasize a strong market value and image, durable in time.

Some countries have already begun including in their policy intellectual capital for better positioning themselves in the new knowledge economy rankings: Denmark has set up a National Council on Skills for collaboration between government and business communication, Norway has launched several initiatives in this direction, in Austria, the government approved a law that obliges universities and colleges to publish an annual report on knowledge capital and so on.

If all these countries that are developed economies in the world have realized the importance of intangible assets and taken steps in this regard, we believe it is time for Romania to align with current trends because we are a state with major creative resources. Although there are many examples which highlight the advantages of taking into account intangible assets, in România they are not appreciated and recognized at the true value. This is observed through the lack of a regulatory framework requiring at least listed companies to shown in the balance of all intangible assets.

This paper aims to implement in the Romanian regulatory framework a new balance sheet item encompassing the company's intangible assets, as an update amount between market value and book value.

Initially, from this treatment may benefit businesses and large companies with a high degree of confidence in the market and whose financial statements are made available to the general public, such as those listed.

The price of intangible assets will result from the decrease from market value or the amount by which the entity is listed on the stock exchange, of its book value. This will be highlighted in a balance sheet item „other intangible assets”.

It can be accounted on analytical accounts following to be disclosed in the notes to the financial statements, being customized from one entity to another.

To form balance sheet equality shall be created a new position in the balance sheet as a liability to be included in revaluation reserves category, thus becoming an equity component.

This method is subject to annual revaluation of intangible assets in order to always update intangible capital percentage. To achieve a fair reassessment shall be use the implementation of the international standard applying IAS 36 „*Impairment Test*”.

Another important element will be the depreciation of assets that can be achieved in a recommended period of time up to 5 years, if the value is not very high compared to the company's heritage, so it won't greatly affect the outcome of the fiscal year.

Here do appear some advantages, such as revaluation differences, which will receive a special accounting treatment, namely: increasing the value of intangible assets will generate growth in the remaining unamortized value, while the decrease will generate unamortized intangible assets value, but not a capital value decrease.

An example of the company's accounting registration is:

1. Establishing the fund generated intangible assets (IAF)

**Intangible Assets Fund = Revaluation reserve**

(This operation will be developed on analytical accounts according to each entity)

2. Amortization of Intangible Assets Fund (IAF) in first year

**IAF Amortization expenses = IAF depreciation**

(The operation shall be repeated over the entire amortization period)

3. Removing the IAF

**IAF depreciation = IAF**

4. The revaluation reserve will be incorporated into equity

**The revaluation reserve of intangible assets = Equity**

After applying the impairment test, if during the period of amortization, IAF value increases, the accounting treatment will be as follows: the added value will be incorporated in the carrying amount of the revaluation reserve at net book value of IAF:

**Intangible Assets Fund = intangible assets revaluation reserve**

(There is a directly proportional increase of both Intangible Assets Fund and intangible assets revaluation reserve)

If there is a depreciation of the FAI, the accounting treatment will be:

**The revaluation reserve of intangible assets = Intangible Assets Fund**

(Revaluation reserve of intangible assets will decrease with the value resulting from the revaluation)

## VI. CONCLUSION

In the research conducted, it appears that the economic mark of an entity in its field could be influenced by intangible assets and by how to manage them because they represent important elements of a firm's assets.

In terms of defining and measuring these assets, it appears that it should not be regarded as a separate element of financial or extraordinary operating process. The assessment problem remains a challenge and will take the intuition and entrepreneurial spirit of entrepreneurs, but the effects are positive and profitable for investors.

In connection with the proposed the balance sheet format we must emphasize that it aims to present a clear and accurate image of the patrimony, by adding a balance sheet item to capture those intangible values that entity has at some point.

This will not only bring benefits to the possibility of a capital increase and the creation of important positions in the market to competition but will be an important element for shareholders and stakeholders that will always compare market brand position in the balance sheet value of the company. In this way they will have a permanent image on the increase or decrease in the economic value of the company.

Another positive effect is the possibility of premature remedy of negative aspects within the firm, thus being an important aid in knowledge management factors that make the entity more competitive on the market.

The new balance sheet proposed model can be an important tool for investors, managers and accountants, who are interested in the implementation and development of internal control systems in tune with economic developments at international level.

### Notes

(1) From a practical standpoint, this distinction provides a gain because it helps understanding and presentation of „*intellectual capital accounts*” which normally can be included in the annual report of the company.

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