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Connotations Regarding Accounting Recognition of Intangibles in the Company's Performance

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Abstract

Nowadays the managers, investors and shareholders are seeking to identify the value sources of an economic entity in order to spot the most suitable destination for their investments. The context of the „new economy" concept stresses the importance of the intangibles assets that becomes greater and greater. Also, many international studies pointed out that performance and growth of the economic entities are driven by the intangibles assets owned, such as software, human capital, organizational structure, R&D investment. In spite of the increasing level of importance of these assets, many of them are not reported in the financial statements, are difficult trying to identify and also difficult to assess, but the endeavor should not be abandoned. This article is intended to show the way the intangibles assets are reported in financial statement of the Romanian economic entities and how they lead performance, growth and value for these companies.

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Keywords: intellectual capital, human capital, value of an economic entity, performance

1. Tangible and intangible assets vs. tangible and intangible resources

Intangible resources, such as research-development expenses, innovations, the entity's network, employee skills, etc., are the foundation of the competitive advantage which sustains high-level, long-term performance of the

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economic entity. According to Danescu and Spatacean (2009), current and potential investors, as well as other parties interested in the evolution of an economic entity, are more interested about the information on the resources which determine competitive advantage. For this, we consider that financial situations and public information companies reveal should have as much data on these future-benefit generating assets as possible.

In the early nineties, a new concept started to emerge, in the literature and practice, about the importance of assets, especially intangible assets owned by economic entities. In particular, `movement of intangibles', which received focus from managers, investors and those able to convey national laws and regulations. The value of intangible assets for the entities value and their performance started being acknowledged. Therefore, in the beginning of the 21st century, the importance of intangibles as a value and growth-generating factor was accepted by economists, investors and managers. (Lev and Daum, 2004)

Nowadays, there is a re-focusing of the economic development, from industry to knowledge. Industry-based economy used to emphasize owning tangible assets, while knowledge economy considers intangible assets a crucial resource for economic entities, as well as a key factor for competitive advantage, economic success and generating value for companies. (Lev, Canibano and Marr, 2005)

However, the value of the economic entity must be seen as the economic concept of "production function", according to which the entity's economic performance is generated by using three major classes of assets: physical, financial and intangible. (Gu and Lev, 2003).

We consider, the most important determinant of value creation in developed economies is formed by elements of economic entities often related to intangible, generated by them such as: staff expertise, quality of processes, computer programs, patents, brands, customer information, distribution channels, structure and organizational culture etc. These, in their capacity as intangible resources, are a significant source in obtaining economic performance, especially in entities whose business is more knowledge - intensive, without minimizing the role of possessing tangible assets.

Therefore, it should be stressed that resources are physical or virtual items of limited availability, by the possession and management of which future economic benefits can accrue. As regards to the economic entity or business, owned resources signify the entirety of elements whose allocation in employed activities according to the scope of activity must be efficient and completed with a management tool. (Danescu et al. (2011) Currently, when artificial intelligence and the internet put their mark on any economic activity, many modern authors understand that, in determining the created value, not only physical assets and financial capital must be considered, but also intellectual capital. (Gigante and Previati, 2010).

To develop business, economic entities must continuously exchange ideas, information, experiences and services, and profitability objectives cannot be achieved through organizational capacity other than by possession of intangible assets. Even tangible asset value of the company is given by the existence of intangible assets, such as technology-embedded products, brand products, and presenting their creative and artistic content. (Smith, 2002)

Stewart argues that the priority in owning assets is no longer holding tangible assets, but companies now seek to accumulate as many intangible assets. In the literature, intangible capital appears as: intangible assets, term used mainly by accountants; related experience or knowledge assets, a term used mainly by economists and intellectual capital, phrase generally used in management and law. (Fenyves, Toth and Tarnoczi, 2010)

Intangible assets or intangibles are defined by the International Financial Reporting Standards as assets that can be easily identified, non-monetary and intangible that are designed to be used in production, supply of goods or services, lease or management to bring future economic benefits to the entity holding them.

Some authors argue that intangible assets are divided into seven categories: brand capital, intellectual capital, structural capital, customer capital, relations with suppliers, goodwill and other. The category "other" refers to relational benefits from government relations and non-competitiveness clauses (Ruth, 2000). This, viewed in terms of recognition accounting rules are intangible resources, as they do not fulfill an essential criterion for recognition to be considered assets by accounting, namely, at present, they cannot be assigned a credible value.

Baruch Lev (1999), in an interview with Alan Webber, says it's very difficult to identify a comprehensive definition of intangible assets. They can be grouped into four categories thus revealing their defining characteristics: assets related to innovation, such as research and development expenses; entity's brand assets that determine the price of products and services of that company to be higher than other companies'; structural assets, for example, new ways to develop business; franchises.