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INTANGIBLE ASSETS AND SOME ACCOUNTING-RELATED ISSUES

Abstract: The paper deals with the specification and issues related to the valuation of intangible assets pursuant to Czech accounting principles and IAS/IFRS. The character of these assets, together with the rules for their classification and accounting, reveal quite a few potential problems with their projection into the accounting books of business entities. The potential differences amongst the approaches applied within the framework of the above mentioned accounting systems result in a different predication and perception which considerably affects the basic financial parameters taken out of the accounting books and used for managerial decision-making. Finally, the issues resulting from the nature of these assets are presented that are common for both accounting systems.

Keywords: Czech accounting system, intangible assets.

1. Introduction

The importance of intangible assets for business activities and the economy in general has been growing. This is mainly caused by globalization and the deregulation of the economy. The constant growth of competition is forcing companies to look for new sources of competitive advantages, and research centers to seek for new financial resources obtained from the sale of intangible assets made etc. Intangible assets have become at least as important a factor as tangible assets. The growth of intangible assets' importance can be also clearly seen in the structure of the value of products and services. Nowadays, products and services commonly feature a considerable portion of knowledge and technical findings, have high value thanks to their brand (e.g. Adidas products) or combine both these factors together (e.g. multifunctional Apple phones). The share of intangible assets in the structure of product value cannot be quantified from the accounting point of view. The share of intangible assets is highly considered e.g. at the sale or merger of business entities.

The definition of intangible assets differs in various economic and legal disciplines. "Long-term intangible assets" is the term of wide understanding, often not so clear. It is mainly used in finance accounting and other related disciplines. In economic practice and vocational literature focused on legislation we rather find the

term “intellectual property” (and its protection) which is defined much closer to the subject to various levels of generalization.

E.g. Špindler K. defines intellectual property in broad terms as: “**aggregate of rights** to inventions, industrial designs, trademarks, business companies and trade names, scientific findings, right for protection against unfair competition and all the other rights associated with the intellectual effort in the field of industries, science, literature and arts, including but not limited to rights to trade secrets, know-how, innovation suggestions, plant varieties, topographies of semiconductors, marks of origin and geographical designations, i.e. rights to intangible assets made by intellectual effort, classified as industrial property or intellectual property in the strict sense of the word” [10].

Dobiáš I. applied in his definition not only the legislative, but also theoretic-economic view of intangible assets: “**intangible asset** generated by an intellectual effort is an independent to material substrate and as such it may be used by an unlimited number of subjects at any time or anywhere in the world without detriment to its essence. Intellectual property is the legal and **economic** abstraction formed by a sum of various objectively (sensed) expressed intangible assets that are considered as objects neither from the legislative point of view nor rights, but as intangible asset values they are capable of being the independent subjects of legal and economic relations. The object of transaction (sale, donation, deposit, heritage or other transfer) cannot be the intangible assets themselves, but rights and titles thereto. Therefore we use the term intellectual property rights” [2].

The definition that most closely corresponds with the characteristics of long-term intangible assets from the finance accounting point of view can be found in the conventions of the World Intellectual Property Organization (WIPO) from 1967. In this case the definition is represented by the following list of subject matter protected by intellectual property rights:

- literary, artistic and scientific works,
- performances of performing artists, phonograms, and broadcasts,
- inventions in all fields of human endeavor,
- scientific discoveries,
- industrial designs,
- trademarks, service marks and commercial names and designations,
- protection against unfair competition; and
- all other rights resulting from intellectual activity in the industrial, scientific, literary and artistic fields [14].

Intangible assets may result from targeted research, development, introduction of new procedures but also common activities or interventions improving the existing conditions of production or market position. In many cases, intangible assets represent a by-product the importance of which and its attributes are realized afterwards by the authors.

In economic practice there are many unclear aspects with regard to the exact specification of intangible assets, their differentiation, specification of the moment

the assets may be posted in accounting books etc. Also the methods of valuation are often complicated, as well as the determination of their life time and the resulting period of depreciation. Another problem is the different perception of intangible assets from the legal and accounting points of view. Not all types of assets meet the requirements for their posting in accounting books and the accounting systems often use different methods for the definition/specification of these assets.

In the period of technical and scientific development it is necessary to deal more with the issues associated with the long-term intangible assets, as the importance of their accounting/reporting in the accounting books is constantly growing. Intangible assets may play an important role for the determination of company value in the case of acquisition/merger. Quite important is also the value of individual pieces of an intangible asset at the moment of sale or lease.

In future, intangible assets may become an important factor for the determination of the value of performance of entities engaged in the field of science and research. Intangible assets are for instance software, patents, inventions, copyrights, trademarks, titles of newspapers and magazines, customer or supplier relations, marketing rights etc. The problem in business practice is how to define these assets exactly, value them and report them in the accounting books.

The long-term intangible assets category is one of the areas with considerable diversities in accounting systems of individual countries. As there are more ambiguities than in other areas of finance accounting, “we can often see a tendency of companies to misinterpret/falsify the accounting data” [7].

With the aim to report better economic results, companies often decide not to report certain amounts in their costs at the time they were actually expended, but rather report them as intangible assets. This is more frequent in countries where the primary aim of bookkeeping is not the determination of the tax base, but the reporting of the most favorable economic result. In countries where the companies use their accounting systems to show the lowest possible tax base (on the basis of their economic results), the situation is the opposite. Companies do their best to include more items into their costs and expenses. While converting the final accounts to IFRS, long-term intangible assets represent one of the most risky areas.

2. Intangible assets characteristics from the Czech and the IAS/IFRS point of view

2.1. Long-term intangible assets characteristics from the Czech accounting system point of view

In the Czech accounting system, long-term intangible assets is defined in two documents. The first one is the Czech Accounting Standard No. 013 – Intangible and Tangible Assets, and the Decree No. 500/2002 Coll.

Without any further specification the Czech Accounting Standard considers the following assets as intangible assets: establishment costs, intangible results of research and development, software, valuable rights, goodwill, other long-term intangible assets, incomplete intangible assets and advances for intangible assets. These items can be also found in the balance sheet (Annex No. 1 to the Decree 500/2002 Coll.). Besides this general specification the Czech Accounting Standard determines further conditions for the classification of assets as intangible. The useful life of such assets shall be longer than one year. Also the valuation plays an important role. The limits for valuation are determined by the accounting units themselves. The valuation itself shall be governed by the limits determined in the Income Tax Act (currently the value must exceed CZK 60,000.00).

The above mentioned types of assets are defined in more detailed in Decree No. 500/2002 Coll., Section 6, but again more or less in the form of the detailed listing of individual items instead of the detailed characteristic of attributes or specific conditions for the reporting of intangible assets in the accounting books. Price limits and useful life apply as mentioned above.

The decree states:

- Establishment costs represent the costs expended on the establishment of the accounting unit (prior to such establishment), such as administrative and court fees, travelling expenses, rewards for mediation and advisory/consulting services, rental.
- Intangible results of research and development (including software) are the results and software developed by own activity for the purpose of future trading or acquired from third parties to use in the company.
- Valuable rights are especially the subjects of industrial and similar ownership, the results of intangible actions and rights according to special legislation, provided they are again made via the company's own activities for the purposes of future trading or acquired from third parties.
- Goodwill is a positive or negative difference between the valuation of the company (or any part thereof) pursuant to the Commercial Code (obtained through acquisition, deposit etc.) and the sum of the individually valued assets reduced by assumed liabilities.
- Acquired intangible assets such as prototypes, models and samples shall be – in case they are used for the company's own activities – posted on the relevant asset account. Optional (alternative) solutions applicable to the acquisition of intangible assets should be included in the acquisition price.
- Other long-term intangible assets cover the assets that are not reported under other categories of long-term intangible assets, especially emission allowances and preferential limits.
- Emission allowances mean the allowances for emissions of greenhouse gases and units of emission reductions and verified emission reductions from project activities disregarding their valuation.

- Preferential limits are especially the individual reference quantities of milk and individual product quotas as well as the individual limit of premium rights disregarding the valuation.
- Unfinished (incomplete) long-term intangible assets mean the assets during the period of acquisition/procurement until they are ready for use.
- Advances for long-term intangible assets are advances of a long-term and short-term nature provided for the acquisition of long-term intangible assets.
- The acquired assets become long-term tangible assets once they are put in use, i.e. become able to meet the required functions and statutory obligations.

The decree further stipulates the negative specification of intangible assets. Intangible assets for instance are not expert opinions, market research, development plans, various certifications, proposals of promotional and advertising campaigns. The values attributable to these activities shall be reflected directly in the costs of the relevant accounting units [11].

A bottleneck of the Czech accounting system can be seen in the fact it does not define the term “intangible assets” in a general way via the attributes these assets should have. It only lists the individual assets covered in the intangible assets category. If a new intangible asset is developed, it would be necessary to amend the “exhaustive” listing of intangible assets in the relevant legislation.

Another disadvantage can be seen in the interconnection of the accounting system with the income tax legislation. The majority of business entities assume price limits of acquisition prices, useful life times of assets and methods for depreciation, as stipulated in the income tax act.

A problematic moment for the proper characterization of long-term assets made by the company’s own activities is the determination of the exact moment when the costs expended convert into assets.

A little controversial is also the inclusion of incomplete (unfinished) intangible assets to company assets. In this case we talk about values attributable to costs expended on the development of the assets, whereas the accounting unit expects the sale of the assets in future, but does not know whether the assets will be saleable in future and able to bring some profit. Considering the principle of accrual accounting, it would be more suitable to keep these values in the economic result of the current (pertaining) accounting period.

2.2. Intangible assets characteristic from the IAS/IFRS point of view

From the IAS/IFRS point of view, intangible assets are defined at two different levels. These levels are considerably different in terms of quality compared to the two information sources available for the Czech accounting system.

The first level defines intangible assets as company assets representing a basic element of the company’s balance sheet. In this case the general definition of assets pursuant to the IAS/IFRS Conceptual Framework applies. Based on this definition the assets used by the company have the following attributes:

- their existence is a result of past activities,
 - their use by the company should bring some economic profit in the future.
- The preconditions for the reporting of such assets in the balance sheet are:
- the future economic profit for the company is relatively certain,
 - the assets may be reliably valued.

The above mentioned attributes are completely ignored in the Czech accounting system.

Another level of intangible assets definition under IAS/IFRS standards is represented by the standard entitled “IAS 38 – Intangible Assets”. Also in this case the definition of intangible assets, as stated in the IAS/IFRS Conceptual Framework, is repeated, however with no link to the value of assets acquired.

The standard defines intangible assets as non-monetary assets without physical substance and identifiable, held for the purposes of production or deliveries of goods and services, for rental to other entities or for the administration and management. The standard does not deal with financial assets, rights to mineral resources, intangible assets resulting from insurance contracts, goodwill and other intangible assets covered by other standards.

Not all assets mentioned above or assets defined pursuant to the Czech accounting system may be reported in the balance sheet pursuant to the IAS-38 standard. The standard – based on the specific character of individual assets – defines the general but rather strict conditions for the recognition and reporting of assets in the accounting system. These conditions are the **possibility of assets’ identification, control** and the **existence of future economic profit**.

Intangible assets are **identifiable** when:

- separable (capable of being separated and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract) or
- they arise from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

E.g. items such as skills of employees, ethics, morale, relations with customers or suppliers may be designated, improved and deepened. However they cannot be sold to other companies and therefore cannot be considered as intangible assets.

If an intangible asset is placed on a tangible data carrier (e.g. software), it must be determined which of these two components is more significant and the asset classified as either tangible or intangible accordingly.

The standard is separating goodwill from other intangible assets. Goodwill may not be separately transferred to another entity. Logically its existence is bound to the existence of the company, i.e. other assets. Therefore it does not comply with the criteria set by the standard.

The possibility of **control** is also quite a specific attribute of intangible assets. The accounting unit should have the right to access the effects from the assets and at the same time be able to prevent other entities from accessing the same effects. The ability of the company to control the future economic benefit from the intangible

asset usually depends on the statutory rights enforceable through the courts. The criteria of control – no matter how clear and undisputable they are at first sight – are often hardly enforceable in practice. It may even happen that the accounting unit has titles to the intangible assets but the effects from them go to some other entity, or it is impossible to assure 100% inspection to avoid the unauthorized use of intangible assets by other entities. See for instance the example of copyrights in connection with broadcasting and listening to music or movies.

To demonstrate that an intangible asset will bring some **economic benefit** to the company is also quite problematic. Pursuant to IAS 38, intangible assets may be recognized in the balance sheet if it is probable that the assets will generate some future economic benefit for the company. This means the standard uses a mathematical term, but does not state the level of probability.

The future profit must be identified and separated from the effects of other assets. The valuation must be sufficiently reliable. The future profit may have various forms, some of which are not obvious at first sight. It may be represented by higher revenues from the sale of products and services, cost savings or other benefits. The attribution of benefit to a specific intangible asset and its quantification is often possible only using special techniques, presumptions and methods capable of the exact delimitation of such profit (or benefit).

Unlike the Czech accounting system, the IAS 38 standard also determines the assets that cannot be considered as intangible.

For instance, an internally generated asset is considered as goodwill, expenses for research, trademarks, names of periodicals, publications and lists of customers.

The standard further states the following cannot be considered as intangible assets: start-up costs, advertising and promotional costs, training costs, costs for relocation of the company or any part thereof.

In many cases the definition of intangible assets pursuant to the IAS 38 standard differs from the approach in accordance with Czech accounting standards. The standard defines quite precisely research and development. These, as well as other differences, are reflected in the total value of assets, the balance sheet structure and company expenses.

3. Valuation of assets and liabilities in the accounting system

The accountancy as a system works with exact values. Some of them may be supported by documents, but many are only determined on the basis of more or less appropriate methods and regulations. One of the basic principles says that the valuation of assets should reflect the profits the asset is expected to bring in the future. The IAS/IFRS Conceptual Framework says that assets represent some future economic profit for the company. Both these terms, i.e. “profit” and “future economic profit”, are rather based on a qualitative approach. These formulations are quite general and may be – in each individual case – fulfilled by different values determined

via different methods in different periods. Moreover, as stated by Mařík dealing with the theory of valuation of business enterprises: “The theory and practice of the valuation agree that the value itself is not an objective attribute of the item subject to valuation” [9]. This may be the reason why we should stop and think about the principle and importance of valuation in accountancy more thoroughly.

The general principle applied to all accounting systems is the true reflection of the flow of economic means and the result of business activities (operations) in *numerical values*. This means that one of the basic problems of each finance accounting system is the issue of determination of the correct way of valuation of the company assets and liabilities as well as costs and revenue. Valuation is a methodical element that considerably affects the predicative capacity of accounting. Accounting is based on the ability of the monetary unit to be a fixed measure of value. The adopted method of valuation is affected by multiple factors at corporate as well as out-of-corporate level. It is, for instance, important whether the presumption of company existence in the near future is fulfilled. If the company expects the termination of its activities in the near future, the valuation methods will considerably differ from those applied in the case of the continuation of business activities.

The problem with valuation in accounting is especially caused by the fact that there are various possibilities of how to value assets and liabilities. There are multiple price levels applied to individual prices. Individual prices cover acquisition prices, reproduction prices, factory costs for capitalized assets made by the company itself (either predefined or reflecting the actual value), selling prices (i.e. net realization prices) etc.

Moreover accounting systems distinguish between the valuation methods used during the accounting period and those used for the final accounts (financial statements) preparation when the principle of caution should be applied. An important role in the predicative capacity of accounting system, especially for long-term assets, is played by the difference between acquisition prices in accounting books and the prices that would exist for the same assets in the current market. In most cases the assets that must be revalued by the accounting unit no longer exist in the current market.

The method of valuation is critical for the content, amount and predicative capacity of most financial parameters measured in accountancy, such as the quantity of assets, equity, net assets, expenses and economic result.

These parameters are used as a basis for various calculations and indicators that characterize the financial position of the company, its profit-making capability, yield from the capital invested etc. Another parameter directly depending on the price level is the base for the calculation of income tax of the relevant accounting unit and the amount of cash flows declared in the cash flow statement.

Only a short step leads from these indicators to macroeconomic indicators such as GDP or incomes of the state budget. From the above mentioned facts it is obvious that the valuation method used is not only crucial for the financial analysis of the

company and the resulting conclusions and decisions, but also for the macroeconomic indicators. Fireš, B. stated: “overestimation of profit (or underestimation of loss) is typical for accountancy based on the valuation using historical (acquisition) prices. In a period of significant increase of prices and inflation rate it may result in acceleration respectively shortening the boom phase; similarly the overestimated losses in the period of recession and decline of prices result in deepening the recession phase” [4].

The issues associated with valuation are more distinct under conditions of advanced market economies due to the constantly changing market prices of assets. Another factor significantly affecting the predicative capability of accountancy is the change of buying power of the monetary unit used for bookkeeping purposes.

Valuation is therefore a crucial and persisting problem not only in financial accountancy, but in business management in general. Without thorough consideration of the importance and rules for valuation in the accounting system, all calculations of financial indicators would be just mathematical tasks without any economic meaning. Therefore valuation in accountancy requires rather strict regulation. Without such regulation, accounting units might bias the reported information intentionally. Then the comparing of individual accounting units as well as comparing values over time might be impossible.

At the conclusion of this introductory section dedicated to valuation, it should be remembered that the accounting regulations apply to the officially compiled and published financial statements, but do not prevent the accounting units from using other systems or methods for valuation, if necessary.

3.1. Valuation methods pursuant to the Czech accounting system (according to the Act No. 563/1991 Coll., on Accountancy, as amended)

The detailed methodology for the valuation of assets and liabilities is covered in the fourth section of the above mentioned Act on Accountancy. It divides the methods for valuation on the basis of time of **realization** of the accounting event and at the **close of the balance-sheet day**. With regard to the valuation of intangible assets at the time of acquisition, the acts state the following:

“h) purchased intangible assets, except for receivables, shall be valued at acquisition costs,

i) internally created intangible assets, except for receivables, shall be valued at production costs (own costs) or replacement acquisition costs (if lower),

l) in the case of gratuitous acquisition or in the case of an internally created asset, when the production costs cannot be determined, the replacement costs shall be used as a basis for valuation” [13].

The basic characteristics of the prices used for valuation is again determined by the Act on Accountancy. Acquisition costs are the costs expended for the acquisition of the asset as well as all the related costs. Replacement acquisition costs are

represented by the price of the asset valid at the time of asset recognition in the accountancy (posting to accounting books). Production (own) costs mean – with regard to intangible assets generated by own activity – direct costs expended for manufacturing or another activity and the indirect costs associated with the production or another activity, in accordance with the applicable provisions of the accounting standards and regulations.

With regard to valuation, the Czech Accounting Standard No. 013 for entrepreneurs refers to the Act on Accountancy and the related decree. It completes the possible uses of the replacement acquisition costs by cases of the deposit of a long-term intangible asset into business, or stocktaking excesses. It also gives a more detailed specification of production costs (all direct and indirect costs associated with the creation of an intangible asset by own activity). If the process of asset creation is of a long-term nature (exceeding one accounting period), costs of an administrative nature may be also included in the indirect costs [1].

As at the moment of financial statements preparation, it is necessary to adjust the asset value by items representing the risks, losses and devaluations, as known to the accounting unit. At the same time it is necessary to correct the value of the asset by the results of stocktaking.

The act does not clearly state that the valuation principle of accountancy shall be the valuation using historical costs. There is also no provision on how to determine the potential impact of the change of the buying power of the monetary unit. Another imperfection can be seen in the specification of production (own) costs expended on the acquisition of assets generated by own activities. The act clearly says that the only adjustments allowed are those that reduce the value of the assets.

3.2. Intangible assets valuation principles pursuant to international accounting standards

The basic tool for the regulation of assets and liabilities valuation in accounting systems pursuant to IAS/IFRS is the Conceptual Framework that – as a valuation basis for financial reporting – covers:

- historical costs (prices) – company assets are valued in monetary amounts that were expended to acquire the assets in the past (at the time of acquisition). This approach is based on the principle that the economic operations recognized in the accounting system have already occurred. Their financial consequences are therefore measurable and may be supported by related documents;
- current costs – company assets are valued in amounts on the basis of current conditions;
- net realizable (settlement) value – the amount of money that could be obtained from the sale of assets at the current time, reduced by direct costs for sale;
- present value – company assets are valued by their present value (current value of future cash flows).

The above mentioned valuation bases must be considered in the context of IAS/IFRS goals (they are primarily aimed at financial statements which mean that the valuation is done as at the balance sheet day). The Conceptual Framework does not prefer any of the above stated valuation bases, it only states that the most frequently used base is the base of historical costs. In fact various valuation bases are intentionally combined in practice or even amended by additional principles, as deemed necessary.¹

The valuation of intangible assets is covered in the standard IAS 38 – Intangible assets. The standard recognizes two basic principles of valuation (measurement), depending on the moment of valuation:

- initial measurement,
- measurement subsequent to acquisition.²

3.2.1. Initial valuation (measurement)

The determination of the specific value of the intangible asset when incurred depends on the method of acquisition.

1. As for an independent intangible asset acquired **by purchase**, the situation is relatively simple. Intangible assets are initially measured at cost. The acquisition price comprises of all the necessary (!) expenditures spent to make the asset usable. For instance, costs wasted or expended uselessly cannot be included. For the acquiring accounting unit recognizing the asset in its accounting system, it is quite difficult to demonstrate the eligibility of such expenditures.

2. A bit more complicated is the acquisition of an intangible asset **within the scope of purchase of the whole company**. In this case the acquisition price should be the so called “fair value”³ as at the date of acquisition. Fair value is defined as an amount the asset could be converted to or a liability settled between the notified partners willing to execute the transaction under standard conditions. Within the scope of this transaction it is necessary to analyze whether the particular asset (to be acquired) meets the criteria of an asset pursuant to the Conceptual Framework, as the asset may not have been recognized/reported in the financial statements of the acquired company. The aim of this approach is to find and recognize all the identifiable intangible assets and separate them from tangible assets or goodwill⁴ that – unlike the other intangible assets – cannot be depreciated/amortized. Indicators for recognition of an intangible asset are:

¹ E.g. the principle of historical costs is amended by the rule of caution applicable to the valuation of certain assets at the end of the accounting period.

² The Czech Act on Accountancy uses the term “end of balance sheet day or other moment”.

³ An equivalent to fair value is also used a in the Czech accounting system (real value) – but there is no exact definition of this valuation method.

⁴ The Czech accounting system deals with this issue differently. It is impossible to identify new assets upon acquisition that were not covered in the financial statements of the acquired company. Goodwill is always subject to depreciation.

- The possibility of the reliable determination of fair value is based on the existence of an active market with the relevant asset. The existing demand for the asset should demonstrate the usefulness of the asset. At the same time, if there is someone who is willing to buy the asset, there will be a possibility of control over the asset (to be able to get some future profit from the asset).
- The purchasing accounting unit is able to reliably estimate the fair value (e.g. to quantify the amount of future incomes generated by this asset).
- It is possible to determine the useful life of the acquired asset.

The newly identified intangible asset may be, for instance, the trade name of the acquired company, database of customers, incomplete development etc. The fulfillment of the above mentioned preconditions is hard to demonstrate. The value of an intangible asset is often attributed to its unique features, i.e. there is no active market with the asset.

The active market is defined by the following attributes:

- Items traded in the market are homogenous;
- It is easy to find buyers and sellers willing and disposed for a business transaction;
- Information on prices are publically available.

From the above mentioned, it is clear that to find an active market for a unique intangible asset is almost impossible.

3. In the case of **gratuitous** acquisition (e.g. an asset acquired through state donation, by assigning production quotas or licenses etc.), the asset shall be valued by fair value or value determined administratively pursuant to IAS 20.⁵ It is however disputable what is the predicative capability of such values, what particularly affects the value, what is the durability of such prices and what impacts the administratively determined values on the undertaking of an entity have.

4. Another possibility is the acquisition of intangible assets by **exchange**. This method allows for other valuation methods. First it is necessary to distinguish whether the transaction is of a commercial nature generating profit or loss. In this case, fair value of the asset provided shall be applied. If it is impossible to determine this value reliably, the fair value of the acquired asset is used instead. If both these values are indeterminable, the accounting value of the asset provided shall be used for valuation purposes.

3.2.2. Valuation of internally developed intangible assets

The acquisition of intangible assets by means of own activity (internal development of assets) is specified in the standard relatively precisely, however there seem to be more gaps and question marks than in the previous cases. The standard distinguishes between two phases of asset generation:

⁵ E.g. the average price of the emission permit in the Czech Republic as at 28 February, 2012, pursuant to the Act No. 357/1992 Coll., is determined on the basis of the most liquid spot market with emission permits (BleuNext), as the weighted arithmetical average of daily closing prices for each trading day, converted to CZK based on the valid exchange rate announced by the Czech National Bank for the relevant day. The weight is the amount of traded emission permits on each trading day.

- research phase,
- development phase.

During the research phase the outcomes cannot be recognized as assets. In this period it is only necessary to document the costs for research and their potential impact on the business result of the company. According to the standard, the research covers activities aimed at gaining new knowledge and findings, i.e. retrieval, evaluation, selection of variant approaches, materials, equipment, products, processes (including options) and their assessment.

Only in the phase of development, when all the preconditions set by the standard may be acknowledged, is the asset recognized, covered in the balance sheet and valued by relevant acquisition costs. The preconditions are:

- the existence of technical and technological feasibility for the asset completion is such that the asset will be reliably saleable or usable in future,
- the activity will be successfully completed and will bring some profit in future,
- there is a market existing for the output from the use of the asset or for the asset itself,
- there are resources (technical, financial, knowledge etc.) existing to complete the development and to make use or sell the intangible asset,
- it is possible to reliably value the costs associated with the intangible asset development.

The acquisition costs should cover all the costs expended in the phase of development. In this process the most difficult and crucial is to determine the moment when the asset gets into the phase of development, as well as to allocate the costs to such development and value them reliably.

3.2.3. Valuation of intangible assets during the assets possession

Valuation during the assets possession means valuation as of the balancing day. IAS 38 allows both the model of historical prices and the model of revaluation on a fair value basis.

If the model of historical prices is applied, the asset shall be – following the initial valuation – amortized and the historical price decreases accordingly.

If the model of revaluation to fair value is applied, the revaluation is carried out on a regular basis. The frequency of revaluation depends on the development of market prices. Following the revaluation, the asset is subject to amortization and its net book value decreases accordingly. In this case there is a rule that the fair value of the intangible asset must be always determined on the basis of the active market price. Also the model of revaluation to fair value cannot be applied to assets that were not posted in the accounting books before. In this way the accounting units cannot suddenly discover new intangible assets from their own activity, the initial posting of which was not assured in accordance with the applicable standards.

The above mentioned approaches to the valuation of intangible assets are closely associated with the methods for the determination of the useful life of these assets and the resulting value of amortization. The standard distinguishes between assets the useful life of which can be, and assets the useful life of which cannot be determined. The latter cannot be amortized. While determining the useful life, the accounting unit not only considers how long the assets may be operated for, but also how long the use of the assets will be efficient and purposeful.

4. Some problematic moments related to the valuation and determination of intangible assets

Considering the facts presented above, it is obvious that IAS/IFRS deals with the issues associated with the valuation of intangible assets more precisely than the Czech accounting system.

The least problematic – with regard to methodology and the supporting accounting documentation – is the acquisition of long-term intangible assets by purchase and their valuation by acquisition price (in general the price required by the seller). While accepting the acquisition price, we must not forget that most of the assets are of a long-term nature, have a unique character, have no active market for trading them and the fair value of these assets cannot be determined. It is a kind of individual price agreed between the seller and the buyer at a given moment and a given place.

- Considering the nature of intangible assets, there is a clear possibility of frequent and significant fluctuations of price level biasing the predicative capability of accountancy.
- Huge development projects and programs, as well as launches of production of special or unique products. require many years of R&D effort, technical preparation, trial period etc.
- Costs for intangible assets (research and development, establishment of a new organizational structure, training of staff) have a small or even no realization value – they are just costs. Such assets with a long-term useful life may be compensated only by the revenue from the sale of products on a long-term basis, not from the revenue from the sale of the assets themselves. This problem is even more distinct in cases where the research and development activities and then the production are realized by different entities.
- The costs wasted or expended uselessly cannot be included in the costs for the acquisition of assets. The determination of such costs is however quite difficult and the amounts may differ significantly on a case to case basis.
- In many cases, global or European political goals as well as the tax principles of individual countries may significantly affect the recognition and valuation of assets. These issues are dealt with in more detail for instance by the authors Malíková and Horák [8].

- Intangible assets are characterized by strong uncertainty with regard to the useful life. What is considered today as an important and significant outcome of science and research may be outperformed tomorrow by a brand new invention and the value of the original asset immediately falls to zero. Therefore accounting units cannot determine the useful life of intangible assets and the amount of depreciation in a way that would reflect reality.
- A considerable amount of intangible assets are hidden in the value of products and are inseparable (which also means unrecognizable in accountancy).
- The above mentioned conclusions do not represent a complete or detailed overview of all the rules and differences. This paper may be considered as a reflection on the problems associated with the accounting of long-term intangible assets in consideration of the key accounting principle of a “true and fair view”.

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WARTOŚCI NIEMATERIALNE I PRAWNE ORAZ NIEKTÓRE PROBLEMY ZWIĄZANE Z ICH UJMOWANIEM W RACHUNKOWOŚCI

Streszczenie: W artykule przedstawiono niematerialne aktywa trwale z punktu widzenia czeskiego systemu rachunkowości oraz MSR/MSSF, a także zagadnienia dotyczące wyceny tych składników majątku w wymienionych systemach rachunkowości. Charakter tych aktywów wraz z zasadami dotyczącymi ich rachunkowego zdefiniowania i ujmowania wskazuje na wiele problematycznych miejsc i możliwości ich ujmowania w rachunkowości podmiotów gospodarczych. Z możliwych różnic pomiędzy stosowanymi podejściami funkcjonującymi w wymienionych systemach rachunkowości wynika następnie różny zakres informacji, który w sposób zasadniczy wpływa na podstawowe wielkości finansowe wynikające z rachunkowości i stanowiące podstawę do podejmowania decyzji przez zarządzających. W zakończeniu przedstawiono te elementy charakterystyki omawianych składników majątku, o których można powiedzieć, że są wspólne dla obu sposobów ich prezentacji.

Słowa kluczowe: czeski system rachunkowości, MSR/MSSF, niematerialne aktywa.