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**INTANGIBLE ASSETS AS AN INNOVATION INDICATOR:
EVALUATION OF IA SPECIFICS IN A RUSSIAN COMPANY
AS AN EXAMPLE**

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As IAS (International Accounting Standards) were published and came into force in Russian Federation since January 2012. The critical differences between intangible assets control under Russian and international requirements have immediately been brought to light. The current article presents a study of intangible assets structural changes of a certain industrial company on a report day carried out under different control estimation.

Key words: intangible assets structure, Russian standards of bookkeeping, international accounting standards, major differences in control estimation.

Classification code JEL M21 – Economy of an Enterprise

**ПРОБЛЕМЫ СОВЕРШЕНСТВОВАНИЯ ОЦЕНКИ
НЕМАТЕРИАЛЬНЫХ АКТИВОВ РОССИЙСКИХ ПРЕДПРИЯТИЙ,
КАК ИНДИКАТОРА ИИНОВАЦИОННОЙ ДЕЯТЕЛЬНОСТИ**

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С января 2012 года МСФО опубликованы и официально вступили в силу на территории Российской Федерации. Описаны принципиальные отличия бухгалтерского учета нематериальных активов по российским и международным стандартам. Продемонстрировано изменение структуры нематериальных акти-

вов на примере промышленного предприятия на одну отчетную дату в разных учетных оценках.

Ключевые слова: Бухгалтерский учет нематериальных активов, российские стандарты бухгалтерского учета (РСБУ), международные стандарты финансовой отчетности (МСФО), основные различия в учетных оценках.

Introduction

Intangible assets cost is a significant indicator of the innovative activity. Intangible assets serve sort of indicator of innovative performance, identifying the non monetary part with no physical shape¹. The typical balance sheet at the Russian enterprise rarely presents intangible assets or if it does it is a pretty insignificant share against the total business capital. This situation is a logical outcome of irrelevant balance within the Russian accounting standards and real cost of intangible assets within international requirements.

Specific nature of the intangible assets (IA) is causing the problems in its control, namely identification and estimation complexity, fair cost definition. A typical balance of a Russian company either does not include an item of intangible assets or if it does this is an insignificant part against total capital cost though the intangible assets contribute greatly into the company performance. The situation is caused by obvious inconsistency between Russian Accounting Standard (PBU) and the other system, IAS, to estimate the real cost of the intangible assets. The concept of a «fair cost» itself is not included in the Russian Federation civil code. To define the notion in question there is a necessity in active market, but due to the specifics of IA there is no active market in this country. Thus in order to define a IA fair cost one should follow the other methods.

¹ International Accounting Standards (IAS) 38 «Intangible Assets». item 8 // http://ec.europa.eu/internal_market/accounting/ias/standards_en.htm

Materials and Methods

Intangible assets control according to federal requirements is guided by IAS 38 «Intangible Assets». These Standards are also applied to advertising expenses, training, initial spending on research and development.² To be treated as such the IA should meet the following³:

1) be defined as IA against the criteria of identification, control over the resources and benefits in the future,

2) be recognized as a) a possibility of potential economic profits related to the assets and b) a possibility to estimate safely cost efficiency of the assets.

In view of this the intangible assets creation process is divided into 2 stages:

– research stage, meaning individual ideas and planned scientific study carried out with the aim to reach new research and technical achievements;

– development stage, meaning either the application of the research outcomes or any other results received while planning and designing new or upgraded materials, devices, products, processes, systems and services from their initial start till commercial production and utilization.

During the research phase the company cannot be fully ensured of the coming economic benefits thus the expenses for the study process, or for at least a phase of it within the internal project, are recognized on appearance.⁴ Thus these expenses are not capitalized as well as not included into intangible assets estimate by IAS.

In accordance with Russian Accounting Standards PBU 17/02 all in-process spending (scientific research experimental development work) is an independent accountable item not in any way correlated to IA. In terms of Russian Accounting Standards in-process research phase correlates to research activity and this phase re-

² Ibid. item 5

³ Ibid. item 18

⁴Ibid. item 54.

fers to experimental, developmental, technological work. Information on this type of activity is an entry in bookkeeping as investment into fixed assets⁵.

Hence the company carrying out research should prove technical feasibility, intention to complete creation of IA, presence of sufficient resources to make, use and benefit from IA received, together with expected profit and ability to estimate distinctly the expenses for the IA creation process⁶.

In accordance with PBU 14/2007 this process is not split into phases; all expenses incurred to IA creation are capitalized. Moreover, only autonomously made objects with a formally established exclusive right status are accepted as IA. Therefore unlike the ISA provisions the Russian regulations do not come into in-process (scientific research experimental development work) because the results are not legally documented, so the rights are not confirmed. The accounting procedure of such type in-process expenses (scientific research experimental development work) is regulated by Russian Accounting Standards PBU 17/02.

According to Russian Accounting Standards PBU 14/07 IA structure covers business reputation of a company⁷, which is not included in IAS, thus it is not depreciated though regulated by a separate standard IFRS 3 «Business Combinations».

Like IAS, Russian Accounting Standards are not applied to the assets identified as intangible but purposed for sale (a particular term is included into criteria list for estimating IA objects).

The basic difference of the approach executed when defining an IA in Russian Accounting Standards format from the IAS concepts is mandatory confirmation of IA exclusive right.⁸ Here lies the main difference in IAS financial reports, where the economic indicators prevail over the legal norms of the national legislature.

⁵PBU 17/02 Regulations on bookkeeping «Expenses control over scientific research, experimental designing and technological studies» approved by RF Ministry of Finance of 19 November 2002. № 115. Item 5.

⁶International standards ISA 38 «Intangible Assets». Item 57. // http://ec.europa.eu/internal_market/accounting/ias/standards_en.htm

⁷Regulations on accounting «IA Control2 (PBU 14/2007) approved by RF Ministry of Finance of 27.12.2007, № 153n, items 42–45.

⁸Ibid. item 3b.

The Russian Accounting Standards require formally established documents confirming the actual presence of the asset ensured by an exclusivity certificate. This requirement substantially confines the list of IA objects under control with relevance to Russian civil law in intellectual property field.

According to IAS, execution of control criteria over the resources can be ensured by both protection documents and other legislative mandates. For example, unlike Russian Accounting Standards IAS allows no-how, licenses, some other things, be treated as IA whereas Russia demands the latter be referred to as in-process (scientific research experimental development work).

In accordance with Russian Accounting Standards PBU14/07 IA are estimated by their initial cost which is not due to change other than revalue and devalue.⁹

The basic differences mentioned above are summed up in table 1.

It is worth mentioning that in accordance with the civil law the necessity of the exclusive right (intellectual property) execution appears only in cases marked by Russian Federation Civil code and other laws.

The IAS prescribes the cost model and the revaluation model:

1. Activity based costing meaning that after initial expense recognition the IA must be estimated by prime cost less any accumulated depreciation and any cumulative impairment losses¹⁰.

2. Revalued amount model meaning that after the after initial expense recognition the IA must be estimated by revalued amount cost on date less the following recoverability of the caring amount¹¹.

⁹Ibid. item. 16.

¹⁰International standards ISA 38 «Intangible Assets». Item74 // http://ec.europa.eu/internal_market/accounting/ias/standards_en.htm

¹¹ Ibid. item. 75.

Table 1

Recognition Criteria under Russian Accounting Standards and IAS

IAS 38	PBU 14/2007
Identified asset (separated from goodwill) which can be separated from the company or resulted from contract or any other legal rights	Possibility to be identified or separated from other assets
The IA is expected to bring economic benefits in the future and is estimated as potential. The future economic benefits might include earnings from product, services selling, relative expenses, others.	IA is capable to bring economic benefits in the future, like being used as a product, or while producing or servicing or managing some performance of a non-profit organization
Assets are controlled by the company. The company benefits from their utilization and is able to restrict the access to other companies. The ability of the company to control the future economic benefits is ensured legally but the company can execute its right for the benefits by other means	The company has in possession the legal documents confirming the identified IA and the right of the organization for the outcome of the intellectual activity or personalized document as well as limitations restricting other individuals' access to economic benefits achieved
Absence of material form	Absence of material form
Object cost can be properly estimated	Actual costs can be defined with certainty
Non monetary object are all the assets except the money, their equivalents and debits in a fixed sum of money	
	The object implies long-term usage, i.e the useful life assessment of 12 months or any other operational cycle if it exceeds 12 months
	The organization does not intend to sell the object during 12 months, any other operational cycle if it exceeds 12 months

IAS 38 presumes the obligatory procedure to test only IA devaluation with uncertain length of useful life assessment. This IA devaluation test is carried out annually or more often if there is a devaluation certificate.

General rules for assets devaluation are regulated by IAS 36 «Assets Devaluation» which has no analogy in the Russian Accounting Standards. For these reasons, the intangible assets devaluation can be judged on under IAS¹². The Russian Accounting Standards PBU14/07 regulations at the moment do not allow to devalue the IA. Moreover as there are no exclusive rights for literary or musical works, movies, patents and trade marks, those assets are recognized as intangible by the Russian rules. The situation implies they are unique although not having a real market. However, an active market cannot exist for brands, newspaper mastheads, music and film publishing rights, patents or trademarks, because each such asset is unique. Also, despite the fact the intangible assets are bought and sold, the contracts are negotiated between the individual buyers and sellers, regarded as transactions.

Table 2

IA estimation depending on mode of acquisition according to IAS 38.

way of intangible asset entry into the company	initial value of intangible asset
separate purchase	prime cost
exchange	fair cost or balance
government grant	fair cost or nominal cost plus expenses
business combinations	fair cost
in-company creation	cost estimated from the date of satisfying the required criteria

¹² Regulations on accounting «Intangible assets control» (PBU 14/2007) approved by RF Ministry of Finance Order of 27 December 2007. № 153. item 22.

The differences in treating the intangible assets by national and international standards bring about the necessity for specific interpretation of IA when transforming the Russian Accounting Standards reporting requirements to meet the IAS requirements. The major differences in recognition criteria of the two standards are presented in table 3 below.

Table 3

**Intangible assets recognition differences under IAS
 and Russian Accounting Standards**

Objects of control	IAS 38	PBU 14/2007
goodwill	excluded from the Standard and is regulated by IFRS 3	intangible assets
trade marks and brands	can be dealt with within the Standards but for those created by the company	can be included into IA
licenses (a right for commercial use in exchange for the license incurred payments)	can be treated as such	do not refer as such
patents	can be treated as such	can be treated as such
no-how	can be treated as such	can be treated as such

Results

The differences in report standards impose certain restrictions on the substance of intangible assets liable for control.

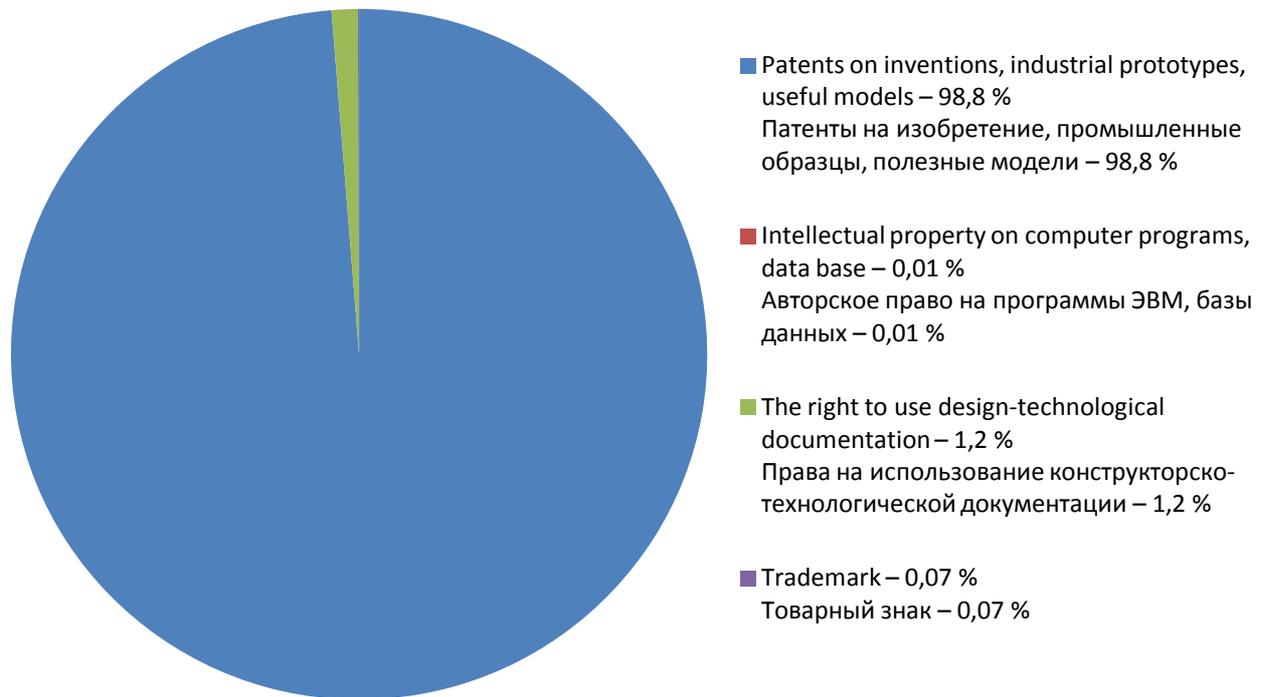


Figure 1. Intangible assets structure of the industrial company involved in design and realization of scientific-technical products under Russian Accounting Standards

Taking into consideration other fixed assets which are meeting the intangible assets recognition criteria, but the rights of which are not dealt with in the company and thus not taken not account under in-process research (scientific research experimental development work), the real balance value of intangible assets under Russian Accounting Standards may be increased by 34 %. The closing results of the industrial company intangible assets fair cost under IAS are presented in figures 2 and 3. The assessment value of the intangible assets under IAS exceeds the respective assessment value under Russian Accounting Standards by 1.5. It is obvious that not only the value cost has changed but the structure itself.

The intangible assets fair value under IAS differs from balance value insignificantly while expenses assessment has decreased by 1.6 under in-process (scientific research experimental development work), there has also appeared a monetary evalu-

ation of the certificates and other special permits, contracts, equipment rent agreements, domain names, web-sites, software.

The differences in amortization charges of an intangible asset under IAS and Russian Accounting Standards are presented respectively in table 3. The amortization start-up moment under IAS 38 is linked to availability of the IA for use. As the special issue on intangible assets aimed for sale is not treated in the Russian Accounting Standards, amortization on such type IA is usually charged to in accordance with the established norm. IAS 38 focuses on the issue that amortization method should be based on future economic benefits incorporated in IA consumption scheme.

Russian Accounting Standards PBU 14/2007 do not treat the definition of liquidity cost of the IA aimed at amortization, thus amortization cost depends on the method of either initial or residual value.



Figure 2. Intangible assets structure of the industrial company involved in development and realization of scientific-technical products under IAS

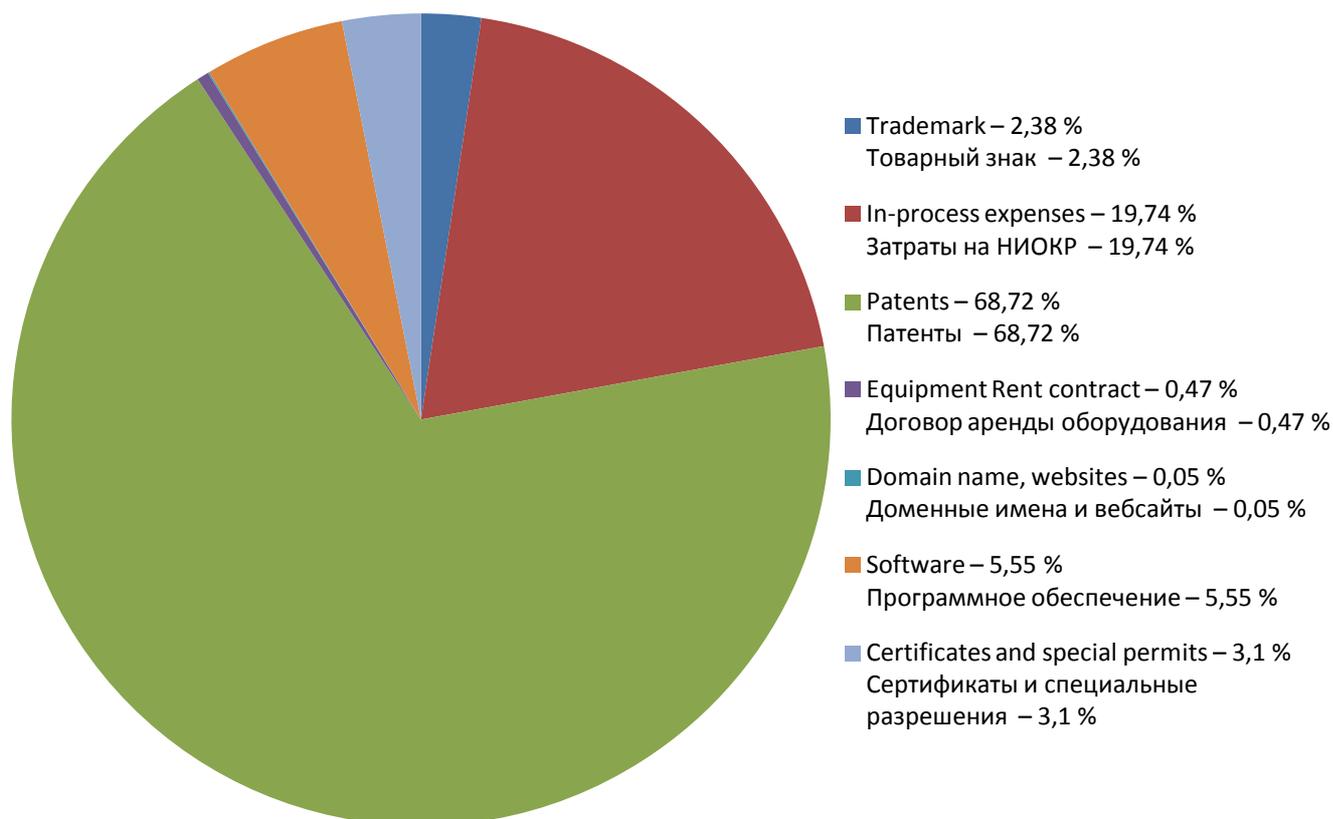


Figure 3. Intangible assets fair cost structure of the industrial company involved in design and realization of scientific-technical products under IAS

The amortisation sum of the asset under IAS 38 with finite useful life is defined after deducting its liquidity cost. The liquidity cost of an intangible asset with finite useful life should be considered as equal to zero except the cases when:

- there are obligations of the third side to acquire the assets at the end-of-useful life-term,
- there exists an active market for the asset and the liquidity cost may be determined by referring to such a market and expecting that it would still exist at the end-of-useful life-term.

Thus the liquidity cost differing from the zero one implies that the company is planning to sell the intangible asset before the end of its useful life period. The liquidity cost is reviewed at least at each financial year – end. All the changes in the asset's liquidity cost are presented in accounting as a change in estimation. Another critical

difference between IA substance under Russian Accounting Standards and IAS is goodwill. Goodwill can be defined as an asset for future economic benefits resulting from other assets acquired from business aggregation, which are not identified and recognized separately.

Table 4

**Differences in goodwill recognition under IAS and
 Russian Accounting Standards**

Object of control	IFRS 3	PBU 14/2007
Goodwill	Non-material asset	Non-material asset
Estimation is difference between buying price (acquiring cost)	32. (b) Acquired recognized assets and liabilities in exchange for control over the business estimated at a fair price on the date of exchange (date of control acquisition)	42. Aggregated assets and liabilities sum in the balance statement on the buying date (acquisition)
Amortisation and test on devaluation	Goodwill after initial recognition should be reflected less impairment losses Goodwill does not undergo depreciation but is measured at least once a year or more often when there is a sign of devaluation	44. Acquired goodwill is due to depreciate over a 20-year period (but not exceeding the period of business operating activity) Depreciation amount on positive goodwill is determined by straight – line method

Discussion

Fair value assessment is another significant difference of intangible asset control under IAS and Russian Accounting Standards. Common treatment of a fair cost with regards to IA has a specifics of its own. Thus the value amount within expenditure method is based on the expenses incurred in order to produce an assessment issue. Comparative method is not always applied to intangible assets treatment. The practice is that IA are mostly being sold as part of business, separate sale of IA is a

rare case. Besides, there exists a number of issues like patents, or the right on a piece of art where it is too hard to refer to the previous practice.

The assessment methods fair value are presented in figure 4.

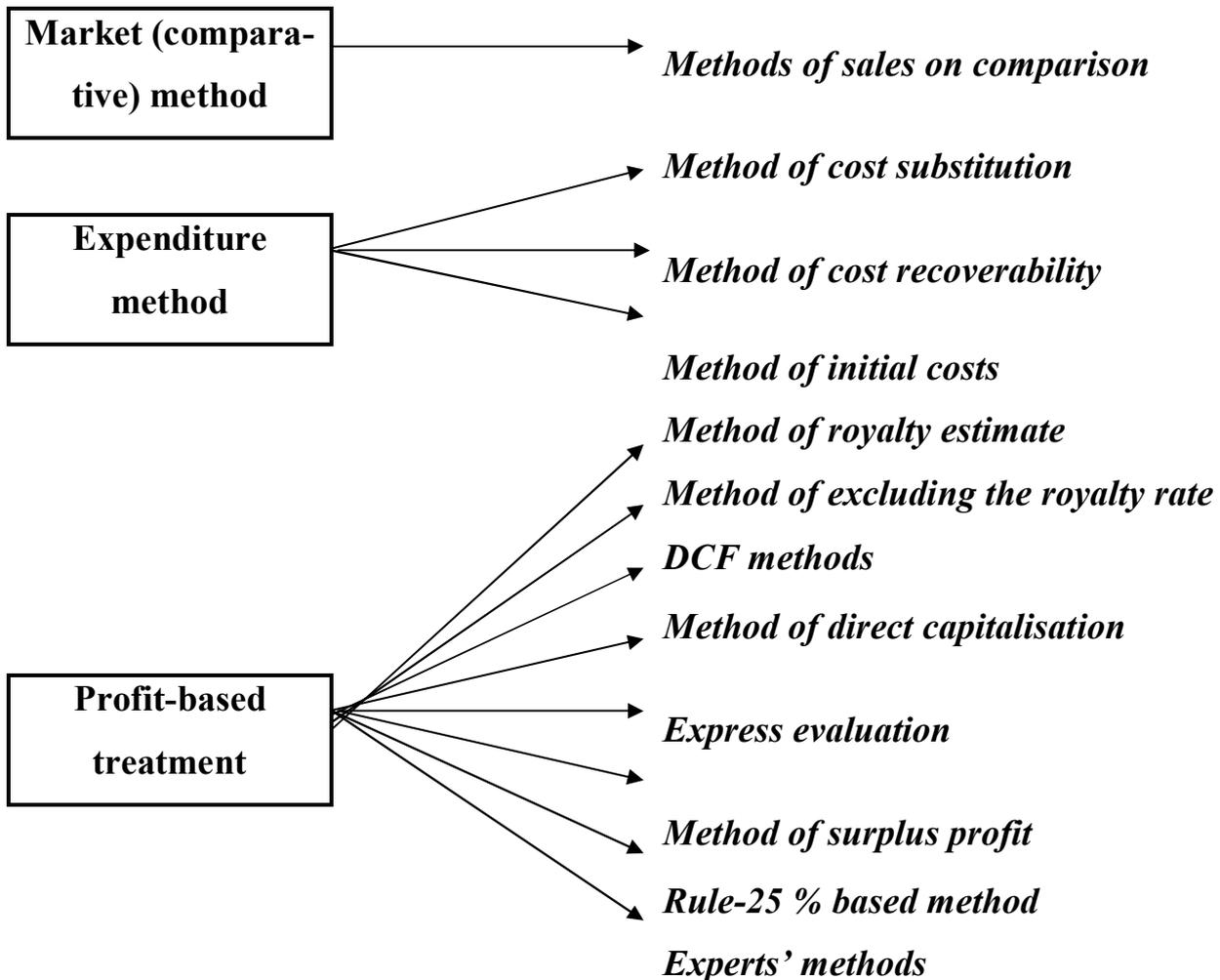


Figure 4. The assessment methods fair value

In view of the above picture the major treatment of intangible assets evaluation is determined as most likely to be based on revenues estimation which the IA owner expects to receive.

Conclusion

From the analysis provided in the study it is evident that:

1. List of intangible assets and recognition terms under IAS differ substantially from those of Russian Accounting Standards.

2. The balance cost of IA under Russian Accounting Standards would differ from that under IAS.

3. In order to state IA in the financial reports under IAS it is necessary to identify the research phase, define its nominal cost, fair value, liquidity value, useful life period, subsequent estimation and amortization method, measure the devaluation.

4. There have been used various methods and ways to define fair value. A proper assessment of the intellectual property nowadays has an impact on the performance analysis resulting from the innovative activity of the Russian and foreign companies.

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