

Presentation of Intangible Assets in Czech Accounting Documentation – Meaning, Allocation and Structure

František Kalouda

Masaryk University Brno
Lipová 41A, CZ - 602 00 Brno Czech Republic

This paper is devoted to the problem of intangible assets. Questions primarily concerning definitions of the intangible asset phenomenon are at the centre of attention from the position of economic and special accounting legislation. The problem of set of intangible assets is also monitored here together with allocation (placement) in basic accounting records of a company. The conclusions of this paper demonstrate the limited possibilities of official (accounting) data structures (including structures for intangible assets), especially in comparison with theoretical structures, as derived from the needs of economic practice. On the other hand, however, it is also necessary to take into consideration the relative transparency of the official intangible asset structures, which provides apparent hope if involving future development in the direction of greater reflex in economic reality.

Keywords: *intangible asset, meaning of intangible assets, structure of intangible assets, allocation (placement) of intangible assets in official accounting records of a company, theoretical structures of intangible assets.*

Pagrindinēs sąvokos: *nematerialaus turtas, nematerialaus turto reikšmė, nematerialaus turto struktūra, nematerialaus turto vieta oficialiuose įmonės aspkaitos dokumentuose, nematerialaus turto teorinė struktūra.*

1. Introduction

It is entirely apparent that for evaluating the efficiency and effectiveness of the current modern enterprise in the period of its market value, it is impossible to forget intangible assets as a whole or selected components of intangible assets.

For example, according to the most recent assessment results of the Top 100 global brands in the world [<http://www.zpravodaj.cz/>], Coca-Cola stood in first place with a value of 67.3 bil. USD (to be thorough, I recall that this involved brand value, not brand equity). If we consider that in 2004 according to the source [<http://www2.coca-cola.com/>], this company had total assets equal to just 31.327 bil. USD and a total market value of common stock reaching 100.325 bil. USD, then in this period we may have proof that intangible assets comprise possibly the fundamental part of the company's value as a whole.

This is one of the reasons why this paper is devoted to the problem of intangible assets, with special emphasis on record-keeping (placement) in accounting documentation of the company and its structure.

2. Aim and Methodology

The primary aim of this paper is to submit an overview of the development of decisive legislation in the Czech Republic for recording intangible assets as a whole as well as their structure in the basic accounting records of a company (in the balance statement). We view here the last five years as the relevant time period, nominally the time interval since 2000.

Another aim of this paper is a comparison or confrontation of the status of legislation in this matter with the theoretical requirements of company finances and management. Again, as the relevant time period, we have selected a long-term perspective. The reason for this approach is the fact that the requirements of economic theory usually crystallize gradually.

In the aforementioned comparison, the structure of intangible assets is considered the greater priority. This paper also views their placement in accounting records as less essential. The reason for this is the more powerfully felt need to create the most detailed and accurate system for classification of intangible assets, so that the possibility for omission of any of the components of intangible assets is reduced to a minimum.

The decisive methodological tools used in this paper are:

- a) Study of all types of sources, with special significance to
 - review of books and journal sources; and
 - review of accounting and other legislation;
- or
 - review of Internet sources.
- b) Analysing studies of acquired information; and
- c) Synthesis into the form of the selected results, discussions and conclusions of this paper.

3. Results

3.1. Period from 2000 to 2002

The status to 2000, more precisely to the end of that year, can be defined according to the source [Sedlíkovi, 2005] as:

“The Income Tax Law to the end of 2000 defined intangible property as

- objects under industrial ownership rights;
- projects and program equipment;
- other technical or economically utilizable knowledge;

if the entry price for individual property is greater than CZK 60,000 and at the same time its period time period of use is more than one year, under the conditions that

- a) it has been acquired legitimately; or
- b) created through its own activity for the purpose of trading; or
- c) acquired through the investment of a partner (member of the cooperative), a gift or inheritance.”

In the years 2001 and 2002, the situation was profiled by the status when “...beginning in 2001, from the Income Tax Law, all provisions related to intangible assets were launched. When applying expenses related to acquiring intangible property from an income tax standpoint in 2001 and 2002, this proceeded according to accounting regulations.” [Sedlíkovi, 2005]. An overview depicting the situation in the period from 2000 to 2002 is noted in the following Diagram 1.

Diagram 1 – Structure of intangible assets (from 2000 to 2002) to 2000 in 2001 and 2002
Income Tax Law operative accounting regulations (Not defined by Income Tax Act)

- object from industrial ownership rights;
- projects and program equipment;
- other technical or economic utilizable knowledge

3.2. 2003 Period

Operative for the status of our study subject in 2003 is Directive no. 500/2002 Coll., by which some provisions of Act no. 563/1991 Coll., on accounting, as amended by later regulations were enacted. Its analysis, conducted by the author of this paper, with regard to whether the defined structure of intangible assets is defined in the first column of Diagram 2. Also in this diagram is a summary of analyses on this directive for recommended structures of intangible assets conducted according to the source [Sedlíkovi, 2005].

If this involves placement (and marking) of intangible assets in accounting records, in this period the standard modification is in compliance with directive 500/2002 Coll. dated 6 November 2002, which introduced some provisions to Act no. 563/1991 Coll., on accounting, as amended by later regulations, for accounting units, which account for companies in the system of double-entry accounting, amendment: 472/2003 Coll. (see citation of relevant passages from this directive in Appendix 1).

3.3. Period from 2004 and Theoretical Diagram of Intangible Assets

For the given task, apparently sufficient information on ratios in this period has also been provided by the source [Sedláková, 2005].

“Beginning with the 2004 tax period, the Income Tax Act again defines intangible assets as it was defined at the end of 2000.”

It is apparent that this amendment did not bring anything fundamentally new and that it could even be assessed as a classic “step backward”. Even the reasons for this step can be thought of or interpreted, if we place priority in the given case to introducing a “constructive variation”.

This is a theoretical structure of intangible assets, introduced from the standpoint of professional literature, as noted in Diagram 3.

Appearing in this diagram, in connection with intangible assets, is a concept hitherto unused in theory – **individually identifiable items**. We understand this characteristic in such a way that it involves those intangible assets, which may be divided or classified as special income.

Diagram 3 – Theoretical structure of intangible assets. [Kalouda, F. (2002)]

Diagram 2 – Structure of intangible assets (from 2003 in various concepts)

<p style="text-align: center;">since 2003 Dir.no. 500/2002 Coll. – acquisition expenses, particularly</p> <p>a) legal and administrative fees; b) business travel expenses; c) mediation bonus; d) consulting services; and e) rent.</p> <p style="text-align: center;">– intangible results research and development,</p> <p>f) created for trade g) acquired from another entity – software, h) created for trade i) acquired from a third party</p> <p style="text-align: center;">– appreciable rights, particularly</p> <p>j) subject of industrial and similar ownership; k) intellectual results creative activities; and l) rights according to special legal regulations. – goodwill. – technical evaluation</p> <p>m) not accounted for as for property; n) minor intangible assets not listed in the items shown in B.I. Long-term intangible property</p> <p style="text-align: center;">– B.I.7. Unfinished long-term intangible asset</p> <p style="text-align: center;">– B.I.8. Provided advance for long-term intangible asset</p>	<p style="text-align: center;">since 2003 [Sedláková, 2005] – acquisition expenses, particularly</p> <p>a) legal and administrative fees; b) business travel expenses; c) mediation bonus; d) consulting services; and e) rent.</p> <p style="text-align: center;">– intangible results research and development,</p> <p>f) created for trade g) acquired from another entity – software, h) created for trade i) acquired from a third party</p> <p style="text-align: center;">– appreciable rights, particularly</p> <p>j) subject of industrial and similar ownership; k) intellectual results creative activities; and l) rights according to special legal regulations. – goodwill – technical evaluation</p> <p>????? ?????</p> <p>- ???????</p> <p>- ???????</p>
---	--

INTANGIBLE ASSET

A) Long-Term Intangible Property

1. Acquisition expenses.
2. Intangible results of research and development “costs for research and development (involves the main items of this type). According to US GAAP these costs are may not be activated.” [Maríková, P. - Marík, M. (2001), page 35].
3. Software.
4. Appreciable rights.
5. Other long-term intangible assets.

“Intangible assets used for production, providing services, rent to third parties or for administration of business units. According to IAS 38, the resources a company utilizes as the result of a past transaction are intangible assets as well as from which it is anticipated that the busi-

ness in the future will provide economic use. IAS 38, however, excludes a series of important immaterial items, such as costs for education and training of workers, costs for advertising and for reorganisation.” [Maríková, P. - Marík, M. (2001), page 35].

6. Unfinished long-term assets.
7. Provided advance on long-term intangible assets.

B1) Individually Identifiable Intangible Asset (unless Included in the Item in Point A)

1. Commercial brand
 - a) Name (general knowledge) [Raffegaue J., Dubois F. (1996), 13]
 - b) Clientele (i.e. hope for continued activity) [Raffegaue J., Dubois F. (1996), 13]
2. Trademark

3. Patents
4. Industrial samples

B2) Individually Unidentifiable Intangible Asset (Goodwill)

1. Know-how, [Raffegeau J., Dubois F. (1996), 14]
2. Quality of organisation and management etc. [Raffegeau J., Dubois F. (1996), 14]
3. Energy, industry and commercial aptitude [Bat'a (1990), 18]
4. Experience and commercial knowledge [Bat'a (1990), 19]
5. "great moral values (my trust in work, suppliers, and customers as well as employees)" [Bat'a (1990), 24]
6. "Usually recognised as intangible assets for the purposes of calculating EVA are cumulative costs **related primarily to:**
 - a) entry into new markets;
 - b) a large part of costs for marketing, primarily advertisements, creating new marketing approaches, etc.;
 - c) costs related to training workers;
 - d) costs related to restructuring of the company." [Maríková, P. Marík, M. (2001), 36];
7. "Executive management;
8. Large share on the market with positive economic effects;
9. Diverse synergy;
10. Efficient personnel;
11. Reorganization costs." [Maríková, P. - Marík, M. (2001), 35]
12. a) "Experienced management;
- b) training of personnel;
- c) long-term commercial connection;
- d) effective organisational structure;
- e) attractive production prognosis;
- f) effective marketing approach;
- g) advantageous placement (locality) of the company." [Mlčoch, J. (1998), 130-131]

4. Discussion

Primarily, it is distinctly demonstrable that various sources at various times have defined intangible assets in various ways and at various levels of detail. The structure of intangible assets is not uniform and furthermore its interpretation may differ for various authors, even to a lack of clarity. For example, from Diagram 2, the

conclusion ensues that the source [Sedlíkovi, 2005] operates with a certain implicit simplification or brevity. The risk is present, of course, in the case of an arbitrary author, who works with Directive 500/2002.

The apparent dispute between legislative requirements and the long-term (gradually) expression of requirements for economic theory on the structure of intangible assets is apparent. Of course, it would not be possible to follow the path leading to an exhaustive recital of detailed items (components) for theories of intangible assets.

As minimally desirable, however, is the manifestation of the need to divide intangible assets according to time (existing long-term and, of course, practically existing short-term level). It will also be necessary to project into the structure of intangible assets a category yet to be captured (for example, management quality).

At the same time, in the future it will be apparently suitable to apply classification systems as well from the standpoint of individually identifiable or non-identifiable items.

It naturally applies that if we introduce evidence of intangible assets outside the structure defined by accounting records, we are not bound to its imperfections in any way. For example, this is also the case in the aforementioned theoretical structure in Diagram 3.

Furthermore, it is apparent that in each case it is suitable to consider the independent subset of intangible assets such as long-term intangible property, which is defined by its placement in the accounting system.

In light of accounting and other legislation of the CR, this category is apparently goodwill in and of itself. Its discussion in the given context, however, exceeds the framework of this paper.

5. Conclusion

It is apparent that legislation, which is significant for allocation and structure of intangible assets, is

- a) internally inconsistent; and
- b) the classification criteria, which introduce it, are not systematic.

This is apparently none to stimulating situation. Luckily, however, this is not all that can be said for Czech accounting (and related) legislation.

Undoubtedly positive, for example, is the fact that the formulation of laws and directives

are apparently so defined intentionally (see for example the use of the formulation “particularly” or “Other details incorporated into these items may be executed...”), that in particular it allows liberal supplementation. In this direction, particularly indirectly, these provide entrepreneurs as well as economic theory space for further precise placement of intangible assets in the structure of accounting statements, as well as for optimising their structure.

Nonetheless, it is apparently an entirely legitimate requirement both for business practice as well as economic theory, that the legislative process determining placement of categories of intangible assets and structures provide more specific approaches. In other words, so that it has more apparent characteristics of convergence for a future optimal state.

Despite all of this, it is necessary to state that there still is no legislatively independent accounting system for classifying and categorizing intangible assets (see Diagram 3) for the needs of business practice appearing more detailed, more accurate and also more appropriate.

References

Books

1. Maríková P., Marík M. *Moderní metody hodnocení výkonnosti a ocenování podniku.* – Praha: Ekopress, 2001.
2. Raffégeau I., Dubois F. *Finanční oceňování podniku.* – Praha: HZ, 1996.
3. Baťa T. *Úvahy a projevy.* – Praha: Institut řízení, 1990.
4. Mlěoch J. *Oceňování podniku.* – Praha: Linde, 1998.

Papers in proceedings

5. Kalouda F. *Nehmotná aktiva v hodnocení bonity firmy (určení hodnoty a auditing) – třídění a klasifikace / Finančný manažment českých a slovenských podnikov.* – Bratislava, Fakulta.
7. *Podnikového manažmentu Ekonomickej univerzity v Bratislave, 19.-20.9.2002.* od s. 75–80, 6 s. ISBN 80-2256-1664-3. GA402/02/1408, projekt VaV.

Journals

8. Sedláková E. *Nehmotný majetek z hlediska dane z příjmu.* *Učetnictví* č. 6/2005

Laws, directives and standards

9. Act no. 586/1992 Coll., on income taxes as amended by later regulations.
10. Directive no. 500/2002 Coll. dated 6 November 2002, which introduces some provisions of Act no. 563/1991 Coll., on accounting, as amended by later regulations, for accounting units, which account for companies in the system of double-entry accounting. Amendment: 472/2003 Coll.
11. Act no. 563/1991 Coll., on accounting, as amended by later regulations, for accounting units that account for companies in the system of double-entry accounting. Amendment: 472/2003 Coll.
12. *International Accounting Standard IAS 38*
Internet sources
13. <http://www.zpravodaj.cz/>, taken from Rypáček, P.: *Interbrand – Top 100 Top Global Brands, Marketingové noviny.cz*
14. <http://www2.coca-cola.com/>

Appendix

Directive 500/2002 Coll. dated 6 November 2002, which introduces some provisions of Act no. 563/1991 Coll., on accounting, as amended by later regulations, for accounting units, which account for companies in the system of double-entry accounting, amendment: 472/2003 Coll. – selected passages.

The Ministry of Finance has established this according to §37a par. 1 to performance of § 4 par. 2, § 14 par. 1, § 18 par. 4, § 22 par. 3 and § 23 par. 2 and 6 of Act no. 563/1991 Coll., on accounting, as amended by Act no. 492/2000 Coll. and Act no. 353/2001 Coll., (hereinafter referred to as the “Act”):

**PART TWO, FINANCIAL STATEMENT
(To § 4 par. 8 of the Act)**

**HEADER I, SCOPE AND METHOD OF
COMPILING THE FINANCIAL STATEMENT**

(§ 3) (2) Arranged in the balance sheet are items of property and other assets, liabilities and other debits. Arranging and marking the items in the balance sheet are established in Appendix no. 1 to this directive.

(§ 4) (1) Items according to appendix nos. 1, 2, and 3 are noted separately in the profit and loss statement and the balance sheet and in the established order. Other details may be incorporated into these items under the condition that they remain preserved in the established order.

(2) Items of the balance sheet and the profit and loss statement are marked by a combination of capital letters of the Latin alphabet, Roman numerals and the name of the items; items may

be incorporated into sub-items. The calculated items are marked by the symbols “+” a “*”.

(3) Balance sheet and profit and loss statement items marked in advance by Arab numerals, may be consolidated,

a) if this does not involve a significant amount in relation to the obligation of due diligence on the subject of accounting and the financial situation of the accounting unit; or

b) if their consolidation has contributed to a greater comprehension of the information and

under the condition that the consolidated items are noted individually in the appendix.

(8) The balance sheet in simplified scope includes only items marked by capital letters of the Latin alphabet and Roman numerals.

HEADER II, CONTENT RESTRICTIONS OF SOME ITEMS IN THE BALANCE SHEET

(§ 6) **Long-term intangible assets; Item “B.I. Long-Term Intangible Assets” contains in particular acquisition expenses, intangible results of research and development, appraisal rights and goodwill... .**

František Kalouda

Nematerialus turtas Čekijos apskaitos dokumentuose: reikšmė, paskirstymas, struktūra

Santrauka

Šiame straipsnyje nagrinėjamos nematerialaus turto apskaitos problemos. Pagrindinis dėmesys skiriamas klausimams, susijusiems su nematerialaus turto fenomeno apibrėžimu, nagrinėjant juos iš ekonomikos ir specialių apskaitų reglamentuojančių teisės aktų pozicijų. Nematerialaus turto rinkinio problema nagrinėjama kartu su jo paskirstymo (registravimo) pagrindiniuose įmonės apskaitos registruose klausimu. Šio straipsnio išvadose atskleidžiamas oficialių apskaitos duomenų struktūrų galimybių ribotumas, palyginus su teorinėmis struktūromis, grindžiamomis iš ekonominės praktikos kylančiais poreikiais. Kita vertus, tenka atsižvelgti į reliatyvų oficialių nematerialaus turto struktūrų skaidrumą, akivaizdžiai teikiančių vilties, kad jos ateityje bus tobulinamos siekiant geriau atspindėti ekonominę realybę.

Straipsnyje teigiama, jog akivaizdu, kad norminiai teisės aktai, turintys reikšmės nematerialaus turto paskirstymui ir struktūrai, turi trūkumų, yra nenuoseklūs, nurodyti jų klasifikavimo kriterijai nesusisteminti. Tačiau, nepaisant trūkumų, Čekijos apskaitos (ir su ja susiję) teisės norminiai aktai turi ir teigiamų savybių. Šiuo požiūriu verslininkams ir ekonomikos teoretikams netiesiogiai suteikiamos galimybės toliau tiksliai paskirstyti nematerialų turtą apskaitos sistemoje ir apskaitos ataskaitų struktūroje, taip pat ir optimizuoti tokio turto struktūrą. Teigiama, kad iš verslo praktikos ir ekonomikos teorijos kyla teisėtas reikalavimas, kad teisėkūra, skirta nustatyti nematerialaus turto kategorijų paskirstymą ir jo struktūras, būtų konkrečiau orientuota. Straipsnyje pabrėžiama, kad dar nėra teisiškai nepriklausomos apskaitos sistemos, pagal kurias būtų galima klasifikuoti ir suskirstyti kategorijomis nematerialų turtą, atsižvelgiant į praktinius verslo poreikius.

František Kalouda – Brno Masaryko universiteto Ekonomikos ir administravimo fakulteto Finansų katedros vedėjas.
Telefonas +420 549 495 133
Elektroninis paštas kalouda@econ.muni.cz
Straipsnis įteiktas 2005 m. gruodžio mėn; recenzuotas; parengtas spausdinti 2006 m. kovo mėn.