

Features of intellectual property reflection in accounting and in financial statements

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Abstract

Intellectual property is a powerful tool that helps the company feel confident in a competitive environment, attract investment, expand sales markets, thereby improving its financial position. The correct reflection of intellectual property in the accounting is of great importance for the correct disclosure of information in the financial statements of the enterprise. From an accounting point of view, intellectual property can be reflected in different ways. There are certain difficulties and discussions regarding the correctness of the reflection of intellectual property in the accounting. In this article, the authors reveal controversial issues in the field of intellectual property accounting and suggest ways to solve them. This article also indicates ways to improve the accounting of intellectual property in the Republic of Moldova.

Key words: accounting, intellectual property, financial reporting.

JEL Code: M40, M41, M48, O34

1. Introduction

Intellectual property is an economic resource with great potential. It includes a set of exclusive rights relating to the property of the enterprise and having a reasonable monetary value, then it can be considered as an object of accounting. Thus, various types of intellectual property and operations with

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them are reflected in the financial accounting and reporting of economic agents of both copyright holders and users. Disclosure of information on intellectual property will increase the reliability of the financial situation of the enterprise and enhance its economic attractiveness to investors. The digital economy contributes to the development of intellectual capital as the main innovative resource of the enterprise.

Reflection of intellectual property in accounting and in financial statements is possible through various categories, including as intangible assets (IA). However, the relative novelty of this category, the need to improve the current regulatory framework governing the accounting and taxation of operations with intangible assets, cause many problems associated with the correct reflection of intangible assets in the accounting and in financial statements.

2. Literature review

The definition of intellectual property can be found in various regulations and legislation governing both national and international law. For example, World Intellectual Property Organization (WIPO) notes that intellectual property (IP) *refers to creations of the mind, such as inventions; literary and artistic works; designs; and symbols, names and images used in commerce* (WIPO).

At the same time, the Convention Establishing the World Intellectual Property Organization provides a classification of intellectual property, such as:

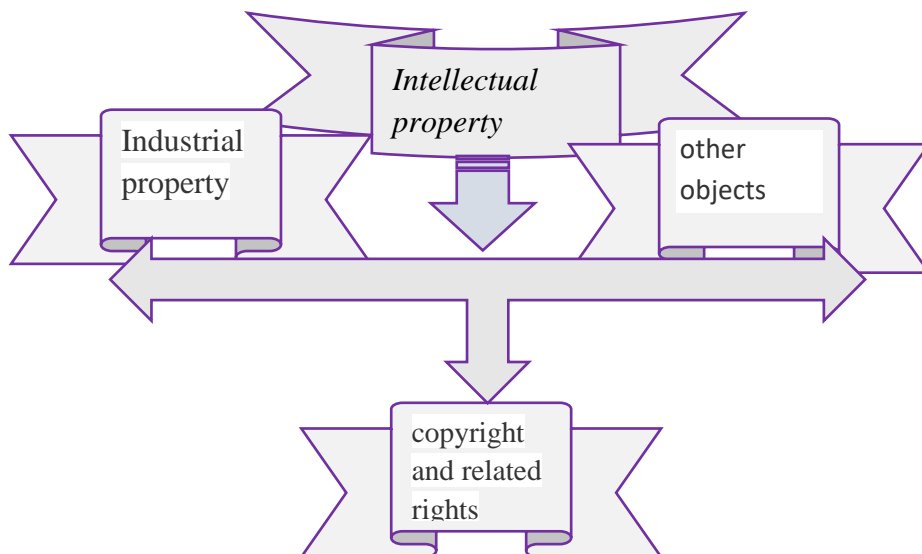
- ✓ rights relating to:
 - literary, artistic and scientific works,
 - performances of performing artists, phonograms, and broadcasts,
 - inventions in all fields of human endeavor,
 - scientific discoveries,
 - industrial designs,
 - trademarks, service marks, and commercial names and designations,
 - protection against unfair competition.

- ✓ and all other rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields (Convention Establishing the World Intellectual Property Organization art.2).

At the same time, modern economic literature considers the concept of intellectual capital, which has a broader meaning than intellectual property. In his article, ``Intellectual Capital Accounting, Reporting and Disclosure in the Modern Economy for Value Reflection``, which was presented at International Center of Academic Communication (ICOAC) on 9th International Conference on Economics and Management, Rome, Italy, February 3, 2017, dr. Cevdet Kızıl noted that: ``*intellectual capital is composed of three elements, which are classified as human capital, structural capital and relational capital (customer capital). Thus, it is not just limited with intellectual property and has much larger scope*`` (Kızıl, 2017).

However, it should be noted that most of the elements of intellectual capital may not be reflected in accounting, for example: such as human capital correlational capital.

Fig.1 Classification of intellectual property



Source: developed by the authors based on the materials of the Law No. 114 of 03-07-2014

This is a requirement for the recognition of an asset in both International financial reporting standards and National accounting standards of the Republic of Moldova.

Article 9 of the Constitution of the Republic of Moldova stipulates that property consists of material and intellectual values. Law No. 114 of 03-07-2014 on the State Agency for Intellectual Property defines: *intellectual property as a private property owned by individuals or legal entities with the right of possession, use and disposal. Intellectual property includes objects resulting from intellectual activity in the industrial, economic, commercial, scientific, informational, literary and / or artistic fields, as well as in other fields* (Law No. 114 of 03.07.2014).

The classification of intellectual property is given in the Law No. 114 of 03-07-2014, which we will reflect in the figure1.

The object of intellectual property is any result of intellectual activity, confirmed and protected by the relevant rights to use it. As shown in figure 1 intellectual property consists of the following components:

- industrial property;
- copyright and related rights.

Intellectual property objects are divided into two categories:

- industrial property objects, which include: inventions, plant varieties, topographies of integrated circuits, trademarks, industrial drawings and models, geographical indications, appellations of origin and guaranteed traditional products; and

- objects of copyright (literary, artistic and scientific works) and related rights (performances, phonograms, video recordings and broadcasts of broadcasting organizations).

Other objects that have a separate regulatory system, such as:

- a) the secret of production (know-how);
- b) commercial name.

In respect of industrial property objects, the right to them arises as a result of registration of the object, issuance of a title of protection to it by the national intellectual property office or in the presence of other conditions in accordance with national legislation, as well as on the basis of international treaties to which the Republic of Moldova is a party. With regard to copyright

and related rights, registration is not a prerequisite for the emergence and exercise of the relevant rights, since these objects are protected from the moment of their creation.

Analyzing the literature on the specialty in the Republic of Moldova, in the field of reflection in the accounting the intellectual property, it should be noted that this topic has been little studied and disclosed. The main papers are related to the recognition of intangible assets. So as, in her article presented at the conference, Cauș revealed the features of accounting for intangible assets for non-commercial organizations. These features primarily concerned the use of funds of a non-profit organization, for example, when calculating the amortization of an intangible asset (Cauș, 2019). Thus, the purpose of this article is to analyze, summarize information on intellectual property and suggest ways to improve the accounting of such property in the Republic of Moldova.

3. Analysis of reflection in accounting and in the financial statements transactions with intellectual property

To properly reflect intellectual property in accounting, it is necessary to determine their economic essence. For this purpose, we will consider the definition of intangible assets and analyse whether the criteria of their recognition can be applied to intellectual property at present, in terms of accounting for intangible assets in the Republic of Moldova, you can use the following provisions:

- Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC;
- IAS 38 "Intangible Assets";
- National Accounting Standard "Long-term intangible and tangible assets".

The National Accounting Standard "Long-term intangible and tangible assets" defines intangible assets as non-monetary long-term assets that do not

have a tangible form and are identified and controlled by the entity. For its part, IAS 38 ``Intangible Assets`` considers intangible asset: as identifiable non-monetary asset without physical substance and classifies them into:

- patented technology, computer software, databases and trade secrets,
- trademarks, trade dress, newspaper mastheads, internet domains,
- video and audiovisual material (e.g. motion pictures, television programmes,
- customer lists,
- mortgage servicing rights,
- licensing, royalty and standstill agreements,
- import quotas,
- franchise agreements,
- customer and supplier relationships (including customer lists),
- marketing rights.

Thus, an intangible asset can be recognized, if the following conditions are met:

- the ability to identify it,
- the receipt of economic benefits from it, and
- the company has control over it.

The ability to identify: an intangible asset is identifiable when it:

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

The probability of future economic benefits must be based on reasonable and supportable assumptions about conditions that will exist over the life of the asset. Another important aspect of the recognition of an intangible asset is the fact that its value is reliably determined. If an intangible item does not meet both the definition of and the criteria for recognition as an intangible asset, IAS 38 requires the expenditure on this item to be recognised as an expense when it is incurred.

Thus, analysing the classification of intellectual property in accordance with the legislation of the Republic of Moldova and the provisions of IFRS 38 it should be noted, that a significant part of them falls under the definition of intangible assets.

In accordance with IAS 38 “Intangible Assets”, the initial recognition of intangible assets is as follows for:

- *research and development costs - not recognized as intangible assets*, charge all research cost to expense. Research costs must be capitalised only after technical and commercial feasibility of the asset for sale or use have been established. This means that the entity must intend and be able to complete the intangible asset and either use it or sell it and be able to demonstrate how the asset will generate future economic benefits. If an undertaking cannot distinguish the research phase of an internal project to create an intangible asset from the development phase, the entity treats the expenditure for that project as if it were incurred in the research phase only.
- *in-process research and development acquired in a business combination*. A research and development project acquired in a business combination is recognised as an intangible asset at cost, even if a component is research.
- *internally generated brands, mastheads publishing, titles, customer lists* - should not be recognised as assets.
- *computer software*. Software should be capitalised with hardware: so include in hardware cost.
- *internally generated goodwill, start-up, pre-opening, and pre-operating costs, training cost, advertising and promotional cost, including mail order catalogues, relocation costs* - must be charged to expense when incurred.

Intangible assets are initially measured at cost. According to cost model after initial recognition intangible assets should be carried at cost less accumulated amortisation and impairment losses. Measurement subsequent to acquisition: cost model and revaluation models allowed. An undertaking must choose either the cost model or the revaluation model for each class of intangible asset. Intangible assets may be carried at a revalued amount, less

any subsequent amortisation and impairment losses only if fair value can be determined by reference to an active market. Such active markets are expected to be uncommon for intangible assets: production quotas, licences, etc.

Intangible assets are classified as:

- Indefinite life: no limit to the period over which the asset is expected to generate net cash inflows for the entity.
- Finite life: a limited period of benefit to the entity.

In the RM chart of accounts, the following accounts are provided to reflect transactions with intangible assets:

11 INTANGIBLE ASSETS

111 Intangible assets in progress

112 Intangible assets in operation:

1121 Concessions, licenses and trademarks

1122 copyrights and security documents 1123 software

1124 other intangible assets 113 amortization of intangible assets

113 Amortization of intangible assets:

1131 Amortization of Concessions, licenses and trademarks

1132 Amortization of copyrights and security documents

1133 Amortization of software

114 Impairment of intangible assets

115 Goodwill

116 Badwill

117 Impairment of positive goodwill

Consider the procedure for reflecting the registration of a trademark in accordance with the provisions of National Accounting Standards. In accordance with the provisions of Law of RM No. 38 from 29-02-2008 "On the protection of trademarks": *a trademark is any designation (visual, sound, olfactory, tactile) that allows you to individualize and distinguish the goods and / or services of one individual or legal entity from the goods and / or services of other individuals or legal entities.* (Law of RM No. 38 from 29.02.2008)

When registering a trademark at the State Agency on intellectual property, you must pay taxes. Let's see which of these taxes can be included in the initial cost of the trademark.

Table 1. Reflection in the accounting of taxes for registration of a trademark in a State Agency on Intellectual property

Nr.	Taxe's type for:	Reflection in accounting
1	filing an application for trademark registration	included in the initial cost of an intangible asset
2	the examination of the application for registration of a trademark, which consists of: the basic fees; fees for the class for each class in excess of 1	included in the initial cost of an intangible asset
3	registration and issuance of a trademark registration certificate	included in the initial cost of an intangible asset
4	the renewal of the trademark registration at the same time as the application for renewal is submitted or before the expiration of the trademark.	expenses
5	making changes to the materials of the trademark registration application or correcting an error	included in the initial cost of an intangible asset
6	filing an objection	included in the initial cost of an intangible asset
7	the issuance of extracts from registers;	initial cost or expenses
8	for receiving, checking, reviewing and submitting an application for international registration to the International Bureau of the world intellectual property organization, simultaneously with submitting the application to AGEPI;	included in the initial cost of an intangible asset
9	for the extension of the period stipulated for the procedure, simultaneously with the application for extension of the period or before the expiration of the prescribed period	initial cost or expenses
10	the restoration of the missed deadline	initial cost or expenses
11	restoration of rights	initial cost or expenses

Source: developed by the authors based on the materials of the Law of RM No. 38 from 29.02.2008

If the tax is included in the initial cost of an intangible asset, then the following accounting entry is given:

Dt 111 “Intangible assets in progress”

Ct 544 “Other current liabilities”

It should be noted that both international financial reporting standards and national standards require disclosure of information about intangible assets in the financial statements, and it is necessary to disclose: in terms of:

- depreciation of intangible assets: *useful life or amortisation rate amortisation method gross carrying amount accumulated amortisation and impairment losses line items in the income statement in which amortisation is included reconciliation of the carrying amount at the beginning and the end of the period,*
- business combinations,
- basis for determining that an intangible has an indefinite life description and carrying amount of individually material intangible assets,
- intangible assets acquired by way of government grants,
- intangible assets whose title is restricted contractual commitments to acquire intangible assets,
- intangible assets carried at revalued amounts,
- the amount of research and development expenditure recognised as an expense in the reporting period.

4. Conclusions

After analysing the procedure for recording intellectual property as an intangible asset the following should be suggested:

1) in the Chart of accounts of the RM for account 112 Intangible assets, it is necessary to review the existing sub-accounts in order to more fully reflect the different types of intangible assets on different sub-accounts,

2) since intangible assets are a specific assets, it would be needful if the relevant authorities developed and approved certain changes to the forms of primary accounting documents used for registration of business transactions with intangible assets.

3) in the regulation on inventory Nr. 60 from 29.05.2012 RM should specify the procedure for inventory with intellectual property,

4) the National Accounting Standard should specify the classification of long-Term tangible and intangible assets into depreciable and non-amortised ones,

5) the economic literature discusses the issue that income and expenses from operations with intangible assets should be recorded as operating activities. In the Republic of Moldova, such transactions are reflected in income and expenses from investment activities.

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