

## VALUATION OF INTANGIBLE ASSETS THE MAIN PAWN FOR NEW CHALLENGES RELATED TO THE KNOWLEDGE ERA

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**Abstract:** *Intangible assets are considered a resource controlled by an economic entity arising from past events that is expected to generate future earnings. Through them we can debate the technical-material and financial developments over time and due to permanent development capacity.*

*Today we are witnessing a constantly changing flow of information found in a perpetual technological change that began the emergence of a new stage in the evolution of society was called knowledge. In this context we talk about the new economy which tries to present more complex reality in which we find ourselves.*

*Evaluation of intangible assets constitute a comprehensive and very complex process that should be treated with great caution, especially since it appears that can lead to new challenges, both because of globalization and the development of technological innovation. It involves understanding the peculiarities of the competence assessment and an independent professional appraiser.*

**Keywords :** evaluation, intangible assets, knowledge era, new economy, challenge.

**JEL Codes :** B49, G12, D89, O16, D49 .

### 1. Introduction

The evaluation process is a complex system that includes all research, information, reasoning, analysis and conclusions to reach the estimated value. He is a complex and systematic procedure followed by the evaluator to provide customer response on the value<sup>19</sup>. It can be played as shown schematically in figure no. 1 below.

In the literature, evaluation is defined as the expression value of assets, processes, funds and financial results of the company. Chronologically, evaluation precedes the registration economic accounting operations. In other words, the evaluation determines the amount of the valued goods or elements.

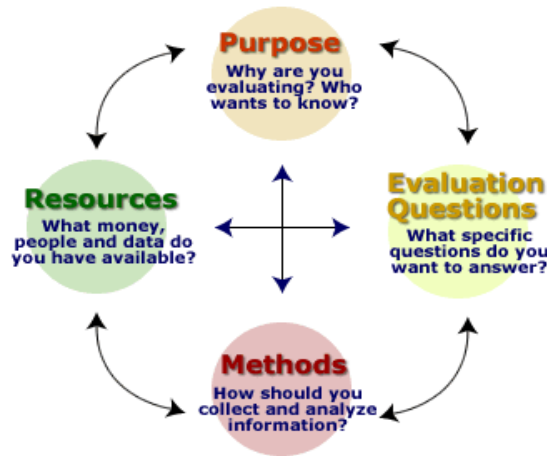
Valuation of intangible assets is carried out on the basis of the International Standard Practice in assessment - GN 4, with the same name. It is frequently required and made, at market value as value type, in accordance with International Valuation Standard - IVS 1: Market value - value type. In the context of contemporary society intangible assets are fundamental to success, providing sustainable competitive advantages.

The assessment of such property items hold great importance and requires finding the optimal way of estimating the value of an intangible asset using one or more valuation

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<sup>19</sup> [www.eval.ro](http://www.eval.ro)

methods. The starting point in applying one of the assessment methods is the quantification of economic benefits to the pool of assets that are associated with an entity.



**Figure No. 1 : Presentation of the evaluation process**

Source : [www.eval.ro](http://www.eval.ro) and processed by author

From my point of view know - how is a very important part of the trade that can lead to new challenges, innovations, programs and projects, etc. . Movies, music recordings, books, computer software and online services are bought and sold, because of the information and innovations contained.

Valuation of intangible assets are required in order to make acquisitions, mergers and sales of businesses or parts of businesses, purchase or sale of intangible assets, reporting to tax authorities, litigation and insolvency procedures, especially financial reporting.

Always remember that an intangible asset is initially recorded at cost of acquisition or production, as shown in all accounting rules and regulations. In a certain period, an intangible item reported as an expense can not be recognized later as part of the cost of an intangible asset.

Valuation of intangible assets gives us new challenges due to the variety of models of calculation and interpretation can lead us to the thought of creating our own assessment methods, which I will try to do in my further research.

## **2. The need to evaluate intangible assets**

Evaluation is a necessity of the first order and is to express using standard monetary means, processes and sources entities. Evaluation is the process of determining the value of the annual structures to be recognized in the balance sheet and profit and loss. In other words, the assessment is to quantify and specify the value of the monetary standard of living, movement and transformation of heritage to be reflected in the accounts.

Such a process is an absolutely essential tool for several different situations to each other. Among them we recall:

1. *Trading* - most often intangibles are traded in active employment. Trademarks and patents are most often sold by companies, thus requiring evaluation.

2. *Existence of the accounting compliance requirements* - always following the acquisition, the buyer should highlight the intangible asset in the balance sheet.

3. *Situation of association of enterprises* - companies often associated with the exploitation of an object of intellectual property, which is a significant part of the intangible assets.

4. *A licensing situation* - a situation in which a homeowner obtains a license and it must be obtained for its value, in order to determine the fee.

5. *The existence of a funding* – in this case intangible assets mean a share in the assets of a business or when applying for a loan, the bank is likely to require evaluation of patents, trademarks, copyrights, to be guaranteed the loan.

6. *The situation where there is a partition made pursuant to a divorce* - sometimes, in such situation, it is necessary to evaluate the patents held by one spouse.

7. *The evidence of damages for counterfeiting* - currently, there is an increase in litigation arising from the violation of trademarks and patents, by requiring these assessments to establish damages.

8. *Situation of the existence of transactions in the company* - through the transfer of patents and trademarks, between group entities is necessary to establish their fair value.

9. *Highlighting the existence of a tax on property* - patent, trademark or copyright, are considered parts of the property to be evaluated can be donated by the owner. Being carrying value must be identified to establish fees related donation.

10. *Finding the existence of a bankruptcy situation* - in this position are required to be performed assessments of intangible assets in terms of forced sale, with the purpose of determining net asset liquidation.

### **3. Evaluating assets versus liabilities<sup>20</sup>**

An intangible asset is one that does not have a physical form but provides value to the firm. Examples of intangible assets include contracts and patents, i.e. assets that cost money to acquire but do not have easily-accessible markets through which to buy and sell them. Unlike tangible assets like machinery and automobiles, the lack of secondary markets increases the risk that the intangible asset can not be liquidated at a reasonable price. (Reilly and Schweihs 1999)

It is vitally important for acquirers to communicate clearly to the market about the value of assets acquired and liabilities assumed as part of an acquisition.

Therefore, the telecom-specific assets of the target should be identified and valued using robust valuation techniques and methodologies. Estimated asset values are reported as part of a PPA analysis, performed in accordance with IFRS requirements.

Furthermore, IFRS 3 (Revised) has introduced new challenges in terms of purchase accounting. The most critical issues for valuation include:

- Valuation of non-controlling interests;
- Option to recognize goodwill on non-controlling interests;
- Contingent consideration measured at fair value.

The intangible assets of the organization is the most important source of competitive advantage granted to other companies. Excellent surgical organization, know their own market segments, and the knowledge to develop unique products and can inspire their employer, there will be a guarantee of success. (Kotler and Shalowitz and Stevens 2008)

For example I would to bring a good example for presenting the big importance of the evaluating of the intangible assets.

So, intangible assets are the company's core capital, is also an important source of corporate profits. Technical standards is the most valuable intangible assets, Fortune 500 companies it is through the control of the rules of the game achieved a dominant position and reap super profits. Gained market share by selling products around the industry's strength. Compared to the rules monopoly market monopoly is a qualitative leap. The market share of the Microsoft operating system is very high. Account for almost all the non-professional computer operating system software market, so that the other companies in order to meet the needs of

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<sup>20</sup> www.ey.com

computer users, only in Microsoft's operating system based on the development of new applications, or Microsoft operating system on the computer. The company's application software can not be used. If Microsoft to change some important parts of the operating system does not support the original version, the upgrading of software, and to make their products fully followed Microsoft's strategic plan is to go completely to become a pawn of Microsoft. And operating system software competitors with its own system due to a large number of application software is not compatible with simply no longer marketable in the market, therefore, the final operating system software market either Microsoft's mercy and long-term monopoly<sup>21</sup>.

In other words, a brand does not have its own core values, and not be able to rely on their own technical strength, factors such as product quality, branding and service system to build and enhance their intangible assets, then this brand is bound to gradually lose eligibility to participate in market competition. This development of the market is particularly reflected in technology-based industries. Proved in a particular industry, who can lead in technological innovation, who intangible assets have an advantage, who will take the initiative in the final competition<sup>22</sup>.

To demonstrate the importance of intangible assets effective, according to the literature, the famous US company Microsoft owns both intangible and tangible. The percentage is 70% for intangible items and the remaining 30% remains for tangible assets.

From my point of view, according to the object of activity (licenses, software and computer programs, contracts for the supply or possession of such services) is normal to have an inverse correlation with the heritage value of the existing elements analyzed.

As a conclusion on this part of the article designed, it should be noted that the assets and liabilities have great importance for any type of enterprise, economic entity or undertaking. It is well established the idea that there always has to be a balance economic - financial and the activities performed well, with a good evolving financial performance and a stable position on the market, there must be equality between the two parts of any existing patrimony, namely, between assets and liabilities (see Fig. no. 2).

<b>Balance Sheet</b>	
<b>Displays net worth of business at a given point in time</b>	
<p><b><u>Assets (what you own)</u></b></p> <ul style="list-style-type: none"> <li>+ Cash</li> <li>+ Accounts Receivable</li> <li>+ Inventory</li> </ul> <hr/> <p><b>Current Assets</b> <i>(convertible to cash within one year)</i></p> <ul style="list-style-type: none"> <li>+ Equipment</li> <li>+ Furniture &amp; Fixtures</li> <li>+ Property</li> <li>- Depreciation</li> </ul> <hr/> <p><b>Fixed Assets</b> <i>(longer than one year to convert to cash)</i></p>	<p><b><u>Liabilities (what you owe)</u></b></p> <ul style="list-style-type: none"> <li>+ Accounts Payable</li> <li>+ Accrued Taxes</li> <li>+ Short-term Notes Payable</li> <li>+ Current due on Long-term Debt</li> </ul> <hr/> <p><b>Current Liabilities</b> <i>(Collectible within one year)</i></p> <ul style="list-style-type: none"> <li>+ Long-term Notes Payable <i>(Payable in longer than one year)</i></li> </ul> <hr/> <p><b>Total Liabilities</b></p> <ul style="list-style-type: none"> <li>+ Owners Investment</li> <li>+ Retained Earnings <i>(income reinvested in the company)</i></li> </ul> <hr/> <p><b>Net Worth (Equity of the company)</b></p>
<b>TOTAL ASSETS</b>	<b>= TOTAL LIABILITIES+NET WORTH</b>

**Fig. No. 2: The current exposure of the balance sheet**  
Source: www.score.org

<sup>21</sup> <http://www.ukessays.com/>

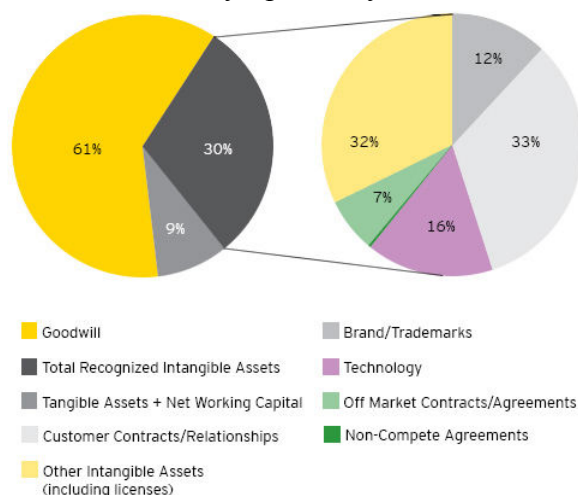
<sup>22</sup> <http://www.ukessays.com/>

In figure no. 2 we can see the standard format of a balance sheet where we can see how assets and liabilities are displayed at a certain time. In accounting, the balance sheet is a very important instrument that displays the net worth of a business at a given time.

#### 4. Valuation drivers in the telecommunications industry – Study case – Telcos Company

Telecommunications industry is a rather complex industry that includes all the specific services that facilitate the exchange of information on significant distances by electronic means. Such activities include the provision of telecommunications, voice messaging, data, text, sound, and video transmission. Plants that facilitates these activities are based either on a single technology or the combination of several technologies. The common point of these activities relate to the transmission of content, without being involved in its creation. The indicators cover the results of this field of data transmission, processing and efficiency, and telecommunications infrastructure<sup>23</sup>.

According to a benchmarking made in 2009, I realised that intangible assets represented — on average — approximately 30% of the telecommunications industry<sup>1</sup> targets' EV, while goodwill accounted for about 60% . This way I present you the second suggestive figure no. 3:



**Figure No. 3 : Intangible assets recognized in Purchase Price Allocation in the telecommunications industry**

Source : [www.ey.com](http://www.ey.com)

During this analysis I realised that in telecom acquisitions, the most significant value for the intangibles was typically assigned to:

- ✓ Customer relationships and contracts ;
- ✓ Licenses for mobile operators or technology-related assets for technology and equipment companies ;
- ✓ Trade names .

On the other hand we can find other intangibles like agreements, such as distribution, supplier or interconnect arrangements.

In the telecommunications industry the commonly methods used for valuing intangible assets are :

<sup>23</sup> [www.indicatorideperformanta.ro](http://www.indicatorideperformanta.ro)

✓ Income approach that allows future economic benefits of the asset to be captured (via the multi-period excess earnings method, relief from royalty method, build-out or greenfield method).

✓ Market approach which compares the asset with similar assets, and prices paid for them (comparable transactions method).

✓ Cost approach is based on the principle that no prudent investor would pay for an asset more than the cost to recreate it or to reproduce an asset of similar utility (it is also called replacement or reproduction cost method).

### **5. Conclusions. Further research**

Intangible assets are a very important element, having a high enough funding implications vision of the knowledge society.

Valuation of intangible assets becomes day by day, more important business dynamics, requiring a multitude of situations imposed by the conclusion of transactions in such assets, by associations of undertakings or failures to obtain financing to establish tax Intellectual property, when determining compensation for dismissals or counterfeiting<sup>24</sup>.

In Romania, valuation of intangible assets is very less practiced. From my point of view, this is due mostly because netranzaționării such patrimonial elements and their unique nature.

In other words, valuation of intangible assets is made by an appraiser enterprise, they form part of the assets of a company.

So the research I tried to demonstrate that currently intangible assets have a greater weight to 10 years ago.

The emergence and development of multiple industries suggest that future studies on intangible assets should be controlled for each industry category or categories of such assets.

In future research will attempt to make a comparative analysis of assessment methods already known on these assets in order to create a new custom model.

According to studies done by the company specialist Insight Research, the global telecoms industry will reach 2.7 trillion dollars by 2017<sup>25</sup>.

So the global telecommunications industry continues to expand, as companies and consumers buy new wireless services.

According to the report, telecom services will generate revenues increasing from 2.1 trillion (2012) to 2.7 trillion dollars (2017). Combined average increase will be 5.3%.

The revenues generated by the wireless industry will grow by 64%, mainly due to the Asian region. The research director in the company - Insight Research, Fran Caulfield, said that despite the global economic uncertainty, the telecommunications industry significant growth, driven by the growing number of Internet users and business mobility solutions. Every day, new and new applications and often do not manage to cope.

However, regardless of these conditions uncertain, telecommunications is and remains a vital sector for economic growth. They bring added value, facilitating socio-economic advancement.

Therefore, we can say that it has become an indispensable tool, like water and energy.

Let's not forget that we are at the beginning of a long process of research and discovery. The vast majority of issues relating to intangible assets not yet been found and may be the subject of a long scientific study. The part which remains as the unknown cannot be contained in a single article, but certainly what we know today is very little compared to what we know over 10, 30 or 50 years and thus remains a matter of debate a very large scale.

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<sup>24</sup> [www.nou.anevar.ro](http://www.nou.anevar.ro)

<sup>25</sup> [www.manager.ro](http://www.manager.ro)

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