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

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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.

Pagrindinës sąvokos: nematerialaus turto, nematerialaus turto reikšmė, nematerialaus turto struktūra, nematerialaus turto vieta oficialiuose įmonės aspiktuose 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 [Sedláková, 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.” [Sedlíková, 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)

<table>
<thead>
<tr>
<th>Income Tax Law</th>
<th>in 2001 and 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>operative accounting regulations</td>
<td>(Not defined by Income Tax Act)</td>
</tr>
<tr>
<td>– object from industrial ownership rights;</td>
<td></td>
</tr>
<tr>
<td>– projects and program equipment;</td>
<td></td>
</tr>
<tr>
<td>– other technical or economic utilizable knowledge</td>
<td></td>
</tr>
</tbody>
</table>

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 [Sedlíková, 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)

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

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 business 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) [Raffegeau J., Dubois F. (1996), 13]
   b) Clientele (i.e. hope for continued activity) [Raffegeau J., Dubois F. (1996), 13]
2. Trademark
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.

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Journals
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Laws, directives and standards
12. International Accounting Standard IAS 38
13. Internet sources

Appendix


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

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...

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Nematerialus turtas Čekijos apskaitos dokumentuose: reikšmė, paskirstymas, struktūra

Santrauka


Straipsnyje teigiamo, jog akivaizdu, kad norminiai teisės aktai norminate nematerialaus turto paskirstymą ir struktūrą, turi nenuoseklis, nurodyti jų klasifikavimo kriterijus nesusisteminti. Tačiau, nepaisant trūkumų, Čekijos apskaitos (ir su ja susijusios teisės normos) teisės aktai turėtų ir teigiamų savybių. Šiuo požiūriu verslininkams ir ekonomikos teoretikams netiesiogiai suteikiamos galimybės galimybės toliau tiksliai paskirstyti nematerialų turto apskaitos sistemoje ir apskaitos ataskaitų struktūroje, taip pat ir optimizuoti tokio turto struktūrą. Teigiamo, 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 paaiškinama, kaip dar néra teisėskai nepriklausomos apskaitos sistemos, pagal kurią būtų galima klasifikuoti ir suskirstyti kategorijomis nematerialų turtą, atsižvelgiant į praktinį verslo poreikį.

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