

THEORETICAL ASPECTS REGARDING THE VALUATION OF INTANGIBLE ASSETS

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Abstract

Valuation of intangible assets represents one of the most delicate problems of assessing a company. Usually, valuation of intangible assets is in the process of evaluating enterprise as a whole. Therefore, Intangible Asset Valuers must have detailed knowledge on business valuation, in particular, the income-based valuation methods (capitalization / updating net cash flow). Valuation of Intangible Assets is the objective of the International Valuation Standards (GN) 4 Valuation of Intangible Assets (revised 2010). Next to it was recently proposed GN 16 Valuation of Intangible Assets for IFRS reporting. International Accounting Standard (IAS) 38 Intangible Assets prescribe the accounting treatment for intangible assets, analyze the criteria that an intangible asset must meet to be recognized, specific carrying amount of intangible assets and sets out requirements for disclosure of intangible assets. From an accounting perspective, relevant professional accounting standards and the following: IFRS 3 Business Combinations, IAS 36 Impairment of Assets and SFAS 157 fair value measurement, developed by the FASB. There is a more pronounced near the provisions of IAS 38 contained in GN 4. Therefore, a good professional intangible asset valuation must know thoroughly the conditions, principles, criteria and assessment methods recognized by those standards.

Key words: *intangible assets, market comparison approach, income approach, cost approach, royalty savings method, additional profits method*

1. Introduction

In GN4, intangible assets are defined as: "A non-monetary asset that manifests itself by its economic properties. He has no physical substance but grants rights and economic benefits of the owner or holder of a participation in it. " In IAS 38 Intangible assets we find the following definition in paragraph 8: identifiable non-monetary asset without physical substance, and in paragraph 12 explains that intangible assets recorded in the accounts must meet the identifiability criteria, respectively, as an intangible asset be identifiable it must have an economic value, that should generate measurable economic benefits in terms of owner it the form of a supplemental income or cost savings and added value for the assets (tangible or intangible) with is used.

Relating to Romania, Order no. 3.055/2009 approving accounting regulations compliant with European Directives, as amended and supplemented, the following categories of intangible assets: formation expenses; development costs; Concessions, patents, licenses, trademarks, similar rights and assets, except for those created within the entity; goodwill; other commercial property; advances to suppliers of intangible assets and intangible assets in progress.

2. The utility valuation of intangible assets

The need for an evaluation of intangible assets is determined by a number of causes, of which the most common are: total purchase price allocation of a business undertaken by a business combination for impairment testing of the asset under IAS 36 Impairment of Assets, the increase capital by contribution in kind, the separate sale of an intangible asset liquidation of a company.

Based on these cases, the appropriate value types are used, such as market value, use value / entity-specific value, fair value, subjective value / investment, a special value, the value of synergy.

3. Factors that influence the evaluation of intangible assets

In the evaluation of intangible assets, the assessor must collect all information necessary for an evaluation based and therefore credible. This information relates mainly to:

- scope assessed property rights, ie the legal situation of the intangible asset in question, as evidenced by legal documents as stipulated by law feel documents (included in intangible assets intellectual property) or through contracts.
- remaining economic life, ie the period in which intangible assets are expected to more general benefit to their owner. An example is a computer program that can have a remaining economic life of one year, before having to replace it with an updated version. Remaining economic life of an intangible asset may be very different from the remaining legal life thereof, which is the period in which intangible assets are protected by law. Determination of the

two forms of life remaining is of particular importance in the proper application of evaluation methods included in the income approach, because the technique capitalization / update the assigned revenue generated intangible asset or will account for these durations / future periods limited.

- ability to generate a form of economic benefits (additional profits, saving costs, a fee exemption hypothetical royalty by obtaining a license or franchise contracts, etc.) must be proven by a number of information and documents relating to the results of last clear intention and the existence of resources to apply the intangible asset, the risks anticipated benefits unobtainable. Some intangible assets generate income that can be allocated their full and for other intangible assets, the total income generated by all the assets of an entity, must be allocated to all assets, including intangible ones (so that residual income).

- nature and history of an intangible asset are important only for those who have applied the same scale manufacturing processes/use. The importance of historical information detailing their proximity increases as the valuation date, as recent events are of great significance in predicting future reference. History relates mainly to products or services generated intangible asset contributing to the costs of maintaining the functionality of the intangible asset or the promotion thereof, in the previous exploitation of economic rights related etc.

- the economic outlook of the country and specific application domain of the intangible asset under assessment refers to the dynamics of economic activity, the intensity of competition in the future, reflected by the projected evolution of prices in that area or the pace of technological innovation.

- goodwill has the same meaning as in IFRS or residual size, calculating only after it has been determined fair value/market the other assets held by an entity separate, both tangible and intangible.

- previous transactions with related economic rights of an intangible asset may, for example, the royalty rate practiced, but have investigated whether partisan relations between the two parties and the structure of the package of assets traded.

- other market information refer to indicators such as the royalty rate practiced for similar intangible assets, rate of return required by investors in different categories of intangible and tangible size of multipliers of income or of turnover.

- Share prices of similar intangible assets and therefore comparable. In general, there is no active market for intangible nature of intellectual property, selecting comparable is difficult, and if it is possible, it will take many price corrections trading to ensure a degree of comparability that support a credible opinion on value.

4. Features in the valuation of intangible assets

Evaluation of intangible assets of an enterprise is a very delicate problem that occurs with their identification, especially those that are not recorded in the balance sheet. In general, identification of intangible assets separate diagnostic phase is legal. The assessor must request the necessary information about intangible assets of the company which are usually not recorded in the balance sheet. In business there are a number doctrine assessment of about 120 intangible assets identified by a name, which can be described by their content and hence can be evaluated separately. The most common intangible assets that can be separately evaluated the nature of intellectual property (patents, trademarks, copyrights, industrial designs, software, formulas, designs, methods, programs, systems, procedures, estimates, technical information, databases), reflecting the contractual relationship between the parties (for example, the advantage of lease, purchase, insurance, lending, distribution, licensing, etc.) and the contractual in nature (eg, skilled labor force, customer relations, with the authorities, employees, etc.). In the light of IAS 38 and IFRS 3, there are several features of evaluation of intangible assets as follows:

- assessment of intangible assets at fair value (which in optical IFRS 2006 is identical to the concept of market value defined in the International Valuation Standards (IVS) 1 Market value - based assessment prepared by IVSC).

- if the intangible asset is measured by a method stated in the cost approach (eg, a software management) will take into account the savings tax (tax benefit).

- when using two valuation approaches, select the result of the most credible approach, and is not an average of the two approaches.

- if using two procedures on the same evaluation methods and results of two values (but close), it can be proposed that the final value arithmetic average of the two results.

- it is always privileged the result of the assessment that is based on direct information market. The case of intangible assets that are traded on the market, the comparison being made with either current trading prices of identical intangible assets (eg taxi licenses, fishing licenses) or current trading prices of similar intangible assets in the latter being necessary corrections to reflect differences between selected elements of comparison (ie the difference between the asset evaluated and selected assets as appropriate comparable).

5. Intangible asset valuation methods

Intangible asset valuation methods fall into one of three fundamental approaches known in the evaluation: market comparison approach, income approach and cost approach. International Valuation Standards recognize that "there are other valuation approaches such as real option approach. Such approaches may be appropriate for valuation of intangible assets in certain situations." The choice of method for a particular case into a specific situation always

depends on the circumstances. In most cases, it is necessary to use several methods of assessment of the need verification results.

Market comparison approach

Evaluation methods using the approach compared determines the value of an intangible asset by reference to the transactions market, for example, the prices of transactions, sale or purchase offers involving identical or similar assets. Intangible assets are the same as having all of the intangible asset being valued, so homogeneous in nature. Such cases are rare, common examples being the practice of taxi licenses and quotas. Intangible assets are similar to those which have many features identical to those of the intangible asset being valued, but have some different characteristics. Therefore, the comparison will be based on appropriate corrections explanation, which should express the differences between the characteristics of comparable assets and intangible asset evaluation.

The two sources of information commonly used by market comparison approach are markets in which intangible assets are sold on similar interests and previous transactions which involved the ownership of intangible assets concerned.

The scope of the comparison between the characteristics of intangible assets selected as the reference and the asset being valued refer to the following:

- legal rights field transmitted (ie assignment contract, exclusive or nonexclusive license);
- the existence of special provisions for financing the purchase of some special relationship between seller and buyer, if the transaction is between two independent parties (ie unbiased transaction);
- the area or areas where traded intangible asset was used, as those in which expanded its use;
- physical, functional and economic reference intangible asset;
- other intangible assets which were sold as a "package" with the intangible asset traded.

Clearly, all these aspects are analyzed compared with the characteristics of intangible asset being valued, to "bring" the transaction price and the offer price for sale, corrections associated with the differences between elements of comparison (shown above), so that arrive at a reference price possible for intangible assets subject to the evaluation process.

The market approach must be a reasonable basis for comparison, by referring to intangible assets like / similar, ie intangible assets used in the same domain as evaluated or in an area that responds to the same economic variables. The comparison should be done in a clear and unambiguous.

After analyzing sales of intangible assets, the assessor calculates the so-called evaluation or multiple rates, which are a link between the sale price of an intangible asset and a financial parameter such as a form of income (gross profit, net profit figure business). For calculating and selecting these ratios and to be observed more consistency, there are presented in GN 4 Assessment of intangible assets, as follows:

- rate selected / multiple choice must provide information about the value of intangible assets;
- information on similar intangible assets used to calculate the rate / multiple must be correct;
- calculating rates / multiples must be correct;
- if the data are averaged, time considered as the method of averaging must be identical;
- all calculations must be made in the same way as similar intangible assets and intangible assets in question;
- rates / multiple must be valid at the valuation date and are representative / representative of the market at that time;
- where appropriate, certain corrections may be necessary to bring similar intangible assets and intangible assets concerned to a greater degree of comparability;
- corrections may be necessary for unusual items, extraordinary and non-operating;
- selected rates/multiple selected must be appropriate / suitable ones, given the differences in risk and expectations of similar intangible assets and the concerned;
- can be calculated several levels of value, as may be selected several valuation multiples, which are applied to intangible assets being valued.

Unfortunately, the market information about the sale price or the price asked for intangible assets similar / comparable are poor, in particular because of confidentiality clauses on transactions. Therefore, market comparison approach should be used with caution and accompanied by assessments made by the other two approaches. However, when there are relevant market information, this approach is the best way of estimating the value of intangible assets. In practice evaluation, procedure rates / valuation multiples used to assess product brands.

As a conclusion on the applicability of this approach in the valuation of intangible assets, IAS 38 Intangible Assets states that most of them are traded on an inactive market, with a unique character, especially intangible nature of

intellectual property. It is therefore not permitted revaluation of intangible assets that are not traded in an active market.

The income approach

Evaluation methods included in the income approach estimates the value of an intangible asset by reference to the present value of estimated flows (income, cash flows, cost savings, etc.) that could be achieved by a market participant, analyzed the asset holder. Application of these methods are based largely on the prospective financial information: projected turnover, operating profit estimate, forecast cash flows, estimated remaining useful life, tangible assets required to support projected flows etc.

Royalty savings method

This method applies primarily to assess patents and licenses. The value of an intangible asset value is estimated by comparing the hypothetical royalty payments that would have been saved by holding the asset with the asset situation obtaining license from a third party. The owner of an intellectual property right may allow others to use the asset in return for royalties, which most often is a percentage of sales volume generated by the use of intellectual property. Such rights normally fall between 3 and 7% of sales, the most common being 5% level, this percentage varies intangible asset type, volume and flow risk arising from its use.

Common data necessary for the implementation of this method are:

- royalty rates and amounts that may be paid in a transaction hypothetical bias rights to use intangible asset assessed;
- projections of financial parameters (primarily, turnover) over the estimated life of the asset;
- the rate at which they could get the tax deduction for hypothetical royalty payments;
- where appropriate, marketing expenses and any other expenses that would come from a licensor in the asset;
- appropriate discount rate;
- where appropriate, the depreciation tax benefit (tax Amortization Benefit - TAB) for intangible assets respectively.

Additional profits method (or the over method)

The method is applicable where it is possible to estimate with reasonable accuracy the advantage of holding and use of intangible assets, asset synthetically expressed by net profit. Typically, this method is based on the profits made directly from intangible assets.

Additional profits method involves comparing the flow of profit or cash flow forecast could be obtained using the intangible asset entity to that which would be obtained by a company that does not use that asset. A variation of this method is the method of variation of profit contribution. There are situations where you can not determine the unit price advantage because no information is available and no estimates can be made with reasonable accuracy on this advantage. In practice may encounter cases where the intangible asset produces a profit for the whole entity that owns it (it can not be attached directly to a particular intangible asset, as described above), it is unique and identifiable. In such a case, the essential question is the starting point in developing valuation technique. Based on a study, the assessor may, for example, to have available information that a product has a high volume of sales, product superior to competing brands in the same market. In this case it starts from the profit contribution resulting from the additional sales.

Reasonable determination of the contribution to profit or prices can be difficult in some cases or can not put into practice. On the other hand, you may encounter situations in which intangible assets are "responsible" for measurable cost savings. By creating this advantage, intangible elements contribute directly to the achievement of additional income and, therefore, could be used in an evaluation method based on cost savings.

Cost Approach

Cost-based evaluation methods estimate the value of an intangible asset with a replica of its calculation or determination of its replacement cost of an asset with the same or similar service capacity. In practice there are several types of intangible assets which can be estimated replacement cost, namely:

- the cost of reconstruction of trained and qualified workforce;
- the cost of creating software internally generated;
- cost of building the website.

Cost method of creating

Although the cost of creating an intangible asset is rarely appropriate for value, are creating situations where cost method can be applied, however, the evaluator developing a valuation technique based on the cost of creating a

similar intangible asset. The applicability of the method is limited by the lack of information to estimate the effects of possession and use of such assets. The method is particularly useful as a means of checking and testing conclusions resulting from the application of other methods.

The application method must be done with caution, based on the idea that in many cases the cost is not a significant indicator value, especially for intangible assets. Clearly, if the effect of intangible elements in business flows are less than the cost of creating, this does not mean an advantage and therefore do not cause a positive value. It should be noted that in addition to the result obtained by the methods of evaluation is sometimes necessary adjustments to be made due to any tax benefit from the amortization of the intangible asset. An adjustment is also known as tax Amortization Benefit (TAB) and reflects savings tax paid by the entity that uses the asset as a result of amortization related to intangible asset. Relationship which calculates the amount of the tax benefit due to the deductibility of depreciation is as follows:

$$TAB = Ernte \times [n / (n (Fcap \times s))]$$

in which:

TAB = tax benefit of depreciation;

Ernte = total discounted net royalty economy;

n = number of years that pay patent;

Fcap = capitalization factor;

s = rate of corporation tax.

Conclusions

Evaluation of intangible assets of an enterprise has a number of advantages as follows:

- presenting real wealth enterprise, which is familiar to all users of the balance sheet (auditors, shareholders, bankers, lawyers, etc.), because it contains the fair values of all assets;
- explain the individual components of the value of capital invested in an enterprise or tangible assets, intangible assets and net working capital;
- facilitate the allocation of the sales price of a company on its assets and liabilities components, which has implications for the tax base.

However, the evaluation of intangible assets, there is always a gap, more or less, between the volume of investments and intangible assets recognized because it can not provide a reliable basis for evaluation of all components involved in the investment process.

Relating to Romania, the main users of financial statements are IRS and creditors, and for this reason, financial reporting, the focus is more on the tangible fixed assets, accounting rules are restrictive on the recognition and measurement of intangible assets, and the identification and measurement of assets that determine the difference between the net book value and market value extra costs.

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