

THE CONCEPT OF INTANGIBLE ASSETS IN VALUATION ACTIVITY

The term “intangible asset” has many definitions which are related to the fields of legal, accounting and taxation activities. However, as a rule, those definitions are specific according to their meaning. According to the valuation purposes, intangible asset primarily should be considered as a property. Independently, whether asset is tangible or intangible, it should be the object of property rights. In order that asset be an object of property right, it should be identifiable. As for an intangible asset, it should have an exact and narrow definition which identifies it as a unique proprietary object. If the intangible property object cannot be identified and specifically described, this object cannot be qualified as an intangible asset. This property may be an idea or term. But, such description is very general to qualify such property as intangible asset. In order to classify intangible asset as property, legal rights must apply on it. It should use all of the legal rights, benefits and privileges. Often the main distinction between tangible and intangible assets is their physical difference. But disparity between tangible and intangible assets is not reduced only to the physical difference. Of course, machines, equipments, cars, land, buildings, instruments, materials, etc. can be seen and touched; all of them are material assets. But, obviously, we can also touch and see the contracts, licenses, franchisee agreements, projects, integrated circuit topographies, patents or copyrights on registration certificate, laboratory journals, etc. The question arises: “Do they represent material assets as well?” Of course they do not, because the main difference between tangible and intangible assets is the following: first of all, value of material assets is created by their tangible substance, and secondly value of non-material assets is created by their intangible substance. Tangible assets in turn represent important elements for creation of intangible assets.

Intangible assets can be classified in the following categories: rights, relationships, non-identifiable non-separated assets or intellectual property; rights are represented in accordance with the terms of contract, written or by other form which gives economic profit for every party. For example, delivery contracts, sales contracts, supply contracts, license agreements and other interconnection between parties, as a rule, do not have contractual nature. They may be short-term and highly valued by both sides. Examples are: staffing by the workforce (staff), relations with the customers, suppliers, distributors or structural (hierarchical) relationship between parties and other. Non-identifiable non-separated assets represent the residual value of intangible assets which is left after identification of all identifiable assets value and the deduction of their value from the total value of intangible assets. Alternative terms are: customer loyalty value for the given economic subject, revenue surplus (super profit) and residual value. Non-identifiable non-separated assets are often called goodwill. Goodwill is (1) the tendency of buyers return in economic entities service, (2) economic subject’s surplus income on identifiable assets’ real returns (super profit) and/or (3) value surplus of enterprise, as a whole, of the aggregate (net) value of identifiable assets. Intellectual property is intangible assets specific category, because, as a rule it is protected by the law from the use by others without any permission. Examples are: trademarks and trade names; copyrights; patents; commercial secrets; know-how and other rights and privileges, by which the owner of intangible assets is equipped. Intellectual property objects include all elements of economic value which other intangible assets have. However, because of their special status, intellectual property objects use special legal recognition and legal protection. Intangible assets are often formed in the process of business operations. But, intellectual property objects are created by the way of human’s intellectual or creative activity. In order to enable intellectual property owners to fully realize their intangible assets economic value, intellectual property objects’ information need special protection. According to the generally

accepted classification, intellectual property is divided into: creative (e.g. trademarks, copyrights, computer software) and innovative (e.g. patents, industrial designs, industrial secrets). This classification defines sufficiently well those two reasons why intellectual property objects use special legal recognition and protection. As for creative intellectual property, law-abiders think that their owners need the protection. The corresponding law should be developed and finally adopted to ensure that a property owner, who has spent a lot of time, strength and abilities to create trade mark or musical composition, not to occur in such a situation in which other person will be able to use his/her work while realizing own interests.

Intangible asset's value is derived from the intangible asset's ownership property rights. In general, intangible asset's value does not derive from the document (paper), on which it is printed. The cost of intangible asset is derived from the property rights which are connected with its untouched value; the intangible factors that are acting on it and on what the asset is acting itself. Intangible assets have separate and different value from the tangible assets. Similarly, material assets have separate and different value from the intangible and other material assets. This is the truth despite the fact that those material assets may require the use of intangible assets to fully realize their value. E.g. the computer hardware assurance (tangible asset) may require the software (intangible asset) to fully realize its value. Intangible assets, which may have separate value, can increase those tangible assets' value, on which they are linked. Although, this does not mean that the total value of intangible asset is transferred to the material asset, or, that the total value of tangible asset is transferred to the intangible asset. The value, which makes intangible assets related with the material assets, is sometimes called surplus value. It means that intangible assets often increase the cost of those tangible assets which are linked to them. Similarly, material assets often increase the cost of those intangible assets which are linked to them.

According to the economic analysis and evaluation purposes, intangible assets can be divided into intangible immovable property and intangible movable property. Intangible immovable property consists of all those individual material rights, profit and other rights which are typical of a real property. Real property differs from the real estate. Real estate is associated with the material assets: land, organization of territory elements, buildings, and improvement and modernization elements for buildings. Real property ownership represents individual legal rights which are related to the material real property. In fact, real property categories include all those untouchable rights and benefits which are associated with the real estate ownership. As all legal rights are intangible, real property is also intangible. Thus, real property categories include all intangible rights and benefits which are linked to real property.

References

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