

**Inga Būmane**

University of Latvia  
Department of Accounting and Audit, Latvia  
e-mail: inga.bumane@lu.lv

**Inta Brūna**

University of Latvia  
Department of Accounting and Audit, Latvia  
e-mail: inta.bruna@lu.lv

## **ACCOUNTING POLICY OF INTERNALLY GENERATED INTANGIBLE ASSETS: CURRENT CASE AND FUTURE DIRECTIONS**

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***Abstract***

*In modern business particular attention is paid to the use of intangible assets; the companies purchase them from other persons and also generate themselves: they launch and subsequently produce new or improved products and services (research and development) and ensure the protection of intellectually intensive products (patents, trademarks, computer software etc.). The aim of the research is to perform the comparative analysis of accounting policy adopted internationally and in Latvia regarding the internally generated intangible assets and to develop suggestions for its improvement. Having studied the documents regulating the accounting and specialized literature, the authors draw a conclusion that the most significant differences could be observed in the USA practice. At the end of research, the authors have developed suggestions for the improvement of internally generated intangible assets accounting policy.*

***Keywords: intangible assets, internally generated intangible assets, accounting policy***

## **1. INTRODUCTION**

Under the modern conditions, when the economic development of countries is more and more influenced by knowledge-based, innovative entrepreneurship, the intangible assets have become the strategic resource of companies. The companies pay attention to the purchase of these specific assets, as well as generate themselves: they implement the plans for the development and improvement of new products and services (research and development) and ensure the protection of intellectually capacious products created themselves (patents, trademarks, software etc.). However, having studied the documents regulating the accounting and specialized literature, the authors established that there is no unambiguous position in the accounting theory regarding the internally generated intangible assets accounting policy. The aim of the research is to perform the comparative analysis of accounting policy adopted internationally and in Latvia regarding the internally generated intangible assets and to develop suggestions for its improvement. The research methodology is based on the comparative analysis of the requirements set in the European Union Directives regulating accounting, the International Accounting Standards and the documents regulating accounting in the UK, the US and Latvia. The paper covers also the analysis of authors' conclusions, publications in the periodicals and other bibliographic sources.

## **2. CURRENT ACCOUNTING POLICY**

In accountancy, the internally generated intangible items – research and development costs, other internally developed identifiable intangible items, goodwill – theoretically can be implemented different accounting policy:

- 1) capitalized among the intangible assets, or
- 2) immediately included into the expenses of an enterprise.

The inclusion of internally generated intangible items into the intangible assets could be justified only if they meet the criteria set for the recognition of assets and comply with additional conditions regulating the recognition of intangible items among the intangible assets. Otherwise these intangible items shall be included into the expenses of an enterprise. The comparison of assets recognition criteria provided by the documents of International Accounting Standards Board, the United Kingdom and Latvia regulating accounting is presented by the authors in Table 1.

As a result of comparative analysis, the authors draw a conclusion that the asset recognition criteria, provided by the sources under research, are identical, the differences could be found only in the formulation. Consequently, it is provided by IASB “The Conceptual Framework for Financial Reporting”, para. 4.38 (IASB, 2010), the United Kingdom FRS No.5 “Reporting the Substance of Transactions”, para. 20 (ASB, 1994), Latvia Accounting Standard No.1 “The

Basic Statements on the Preparation of Financial Report”, para. 4.1. (Latvia Accounting Board, 2004) that an asset shall be recognized, if both conditions come true – the probable receipt of economic benefit and the reliability criterion of value.

Table 1

The Criteria for the Recognition of Economic Transaction Item as an Asset

IASB	UK GAAP	Latvia GAAP
It is probable that any future economic benefit associated with the item will flow to or from the entity	There is sufficient evidence of the existence of the item (including, where appropriate, evidence that a future inflow or outflow of benefit will occur)	The assets are the resources of an enterprise acquired as a result of past events and that in future the enterprise would expect economic profitability
The item has a cost or value that can be measured with reliability <sup>1</sup>	The item can be measured at a monetary amount with sufficient reliability	The item shall have value that could be credibly evaluated <sup>2</sup>

Notes: <sup>1</sup> Information is reliable when it is complete, neutral and free from errors.

<sup>2</sup> The criteria set in Latvia for the recognition of assets are provided in the definition of assets.

Source: IASB. *The Conceptual Framework for Financial Reporting*; ASB. *FRS 5*; LAB. *LGS 1*.

It is necessary to provide more detailed explanation for the words “probable” and “reliability”, used in the formulations of asset recognition criteria. According to A. Melville, the use of the word “probable” in these recognition criteria is an acceptance of the fact that the future is uncertain. If recognition required certainty, it would be impossible to draw up meaningful financial statements at all. For example, no-one can say for sure whether or not an amount owed to an entity will ever be received. However, if it is probable (on the basis of the evidence available) that the amount will be received in due course, then recognition of this amount as an asset is justifiable. The use of the word “reliability” in the recognition criteria does not mean that costs or values must be capable of precise measurement before they can be recognized (Melville, 2008, p.25).

However, not all specialists agree to now generally accepted asset recognition criteria. There exists a probability that the asset recognition criteria will change, because “reliability” is being replaced by “faithful representation”

and “verifiability”. It is expected that the measurement of an asset will need to have faithful representation of the economic phenomena, and that the measurement must be verifiable (Alfredson, K. and other authors, 2009, p. 24). At the moment, while this article was prepared, the asset recognition criteria were not changed.

As it was mentioned above, in order the internally generated intangible items could be recognized as assets, they have to comply not only with the asset recognition criteria, but also with the additional conditions the authors will analyze later in this article.

Having studied the provisions of the EU 4<sup>th</sup> Council Directive, IAS No.38 and the provisions of documents regulating accounting in the United Kingdom, the USA, and Latvia, the authors established that there has been no unambiguous accounting policy adopted in relation to internally generated intangible items (See Table 2).

Table 2

The Comparative Analysis of Accounting Policies in Relation to Internally Generated Intangible Items

Intangible items	EU 4 <sup>th</sup> Council Directive	IAS No.38	UK GAAP	US GAAP	Latvia GAAP
Research costs	assets, but priority is given to national legislation	expense	expense	expense	expense
Development costs	assets, but priority is given to national legislation	assets, if specified criteria are met	if specified criteria are met, <u>may choose</u> : 1) assets, or 2) expense	expense <sup>1</sup>	assets, if specified criteria are met
Other internally developed identifiable intangible items	assets, but priority is given to national legislation	assets, if the respective conditions come true <sup>2</sup>	assets, if the respective conditions come true <sup>3</sup>	expense	assets, if the respective conditions come true
Goodwill	expense	expense	expense	expense	expense

Notes: <sup>1</sup> with the exception – computer software developed for sale

<sup>2</sup> with the exception – brands, mastheads, publishing titles, customer lists and items similar in substance

<sup>3</sup> with the exception – brands and publishing titles

*Source: EU 4<sup>th</sup> CD; IASB. IAS 38; ASB. FRS 10, SSAP 13; FASB. SFAS 142, SFAS 86, ASC 350; Latvia. Annual Accounts Law.*

The research shows that internally generated goodwill is accounted for in a consistent manner, i.e., its capitalisation is forbidden. That can be explained by the fact that it is impossible to estimate the value of this element reliably or to control it. However, other internally generated intangible items are subject to a different accountancy policy.

Research costs and development costs are internally created intangible items that are closely linked to one another. Research phase is characterised with a high level of risk, as it is impossible to predict the likelihood of obtaining a positive outcome to be developed for practical application. Development phase, in turn, is founded on the results of research phase, and it serves as an assurance that the enterprise will be able to obtain a product ready for production or practical application. It is important to differentiate between the two, because, as we can see in Table 2, the internationally dominant accountancy policy depends on the action performed.

In the sources studied the prevailing costs accounting method of research stage is their recognition as expense when incurred. Such procedure complies also with the provisions of the EU 4<sup>th</sup> Council Directive that, in fact, delegate the authority to choose the accounting policy in relation to both research costs and development costs to the Member States. The immediate writing off policy regarding research costs complies with the principle of prudence, because, as it was mentioned above, the research activities are related to a high degree of uncertainty – it is not clear, whether there would be the positive outcome that could be utilized for further developmental activities, and thus it is not clear, whether this action would provide companies with the flow of economic benefit in future.

In relation to the development costs accounting policy it is possible to observe different accounting methods. Mostly, irrespective of the type of intangible item to be developed, it is allowed to capitalised the costs, if the asset recognition criteria and the additional specific criteria come true; the exception is US GAAP. In Table 3 the authors present the comparative analysis of development costs recognition criteria as provided by IAS No.38, the documents of the United Kingdom and Latvia regulating accounting.

An analysis of the criteria found in the IAS No.38 “Intangible Assets”, para. 57 (IASB, 2001) and “Annual Accounts Law” of Latvia, para. 18 (Latvia, 1992) for the capitalisation of development costs shows that both documents, according to their essence, stipulate similar capitalisation criteria, the differences could be found only in the formulation.

Having compared the development costs capitalisation criteria provided by IAS No.38 “Intangible Assets”, para. 57 (IASB, 2001) and the UK SSAP No.13 “Accounting for Research and Development” para. 9-14 (ASB, 1989), the

authors established that both documents stipulate three similar capitalisation criteria, but the rest are different.

Table 3

The Comparison of Development Costs Capitalisation Criteria

IAS No.38	UK GAAP	Latvia GAAP
1. the <u>technical feasibility</u> of <u>completing the intangible asset</u> so that it will be available for use or sale	1. there is a clearly defined project	1. the company intends to <u>finish an asset</u> object in order to utilise it for the own needs of the company or to sell it
2. its intention to <u>complete the intangible asset</u> and use or sell it	2. <u>the related expenditure is separately identifiable</u>	2. <u>it is possible</u> for the company to <u>finish such asset</u> object and <u>it has access</u> to the required technical, financial and other <u>resources</u>
3. its <u>ability to use or sell</u> the intangible asset	3. the outcome of such a project would then need to be examined its <u>technical feasibility</u> and its <u>ultimate commercial viability</u>	3. the company is able to transparently show what kind of <u>economic benefits</u> from the utilisation or sale of such asset object will be received <u>in the future</u>
4. how the intangible asset will <u>generate probable future economic benefits</u>	4. the aggregate of the deferred development costs, any further development costs, and related production, selling and administration costs is reasonably expected to be exceeded by related future sales or other revenues	4. the company is able to <u>believably value the amount of costs</u> of the such asset object
5. the availability of <u>adequate</u> technical, financial and other <u>resources</u> to complete the development and to use or sell the intangible asset	5. <u>adequate resources exist</u> , or are reasonably expected to be available, to enable the project <u>to be completed</u>	
6. its ability <u>to measure reliably the expenditure</u> attributable to the intangible asset during its development		

Source: IASB. IAS 38; ASB. SSAP 13; Latvia. Annual Accounts Law.

The UK criterion, marked 1 in the table, states that there must be a clearly defined project, and criterion 4 provide for the amount of admissible development costs capitalisation. The IAS, in contrast, does not include such criteria, but instead stresses that the company shall have the intention to complete the intangible asset and the ability to use or sell it. Having compared the various criteria for capitalising the development costs, the authors believe that, in relation to this, the ones contained in the IAS are more precise. This is because the criteria – an intention to complete the asset and also to use it – provide a definite guarantee that the respective intangible assets will be carried to the point where it culminates in practical application within the enterprise or can be sold, while a single criterion that the project must be clearly defined may result in a situation that there is no intention to complete the intangible asset, as a result of which the intangible asset will not be prepared for its planned utilisation and generated for the economic benefit in future. It is necessary to point out one more difference – IAS provide that, if the above mentioned development costs capitalisation criteria come true, the enterprises shall recognise them as intangible assets. Whereas in the UK the capitalisation of development costs is not determined as mandatory. If the respective criteria come true, the enterprises have a choice: to capitalise them or to include them into expense when incurred.

Having studied the development costs capitalisation criteria on the whole, the authors draw a conclusion that these conditions comprise the internationally adopted criteria for the recognition of economic transaction item as an asset (See Table 1). And, since the use or sale of intangible assets generated in such a way is related to the respective degree of uncertainty, then, in order to limit the risk, there have been envisaged additional conditions that guarantee the completion of development, the application of its results and their commercial usefulness. It should be pointed out that in practice it is mostly difficult to meet all criteria for the recognition of intangible assets obtained as a result of developmental stage. In some cases, the development costs of intangible item, generated at the enterprise, may be credibly evaluated. For example, on the basis of the costs accounting system of an enterprise it is often possible to evaluate the personnel costs and other costs incurred to the enterprise, while generating the intangible items. But in most of the cases the development costs of generated intangible item cannot be evaluated a high reliability degree. For example, the costs of such activities, as a result of which it is planned to generate or maintain the trademark of a specific product, may include the factors that cannot be determined in terms of material values – such factors include the improvement of personnel's general mood and maintaining or improvement of company's image.

In the USA there has been accepted a different development costs accounting policy – in conformity with SFAS 142 “Goodwill and Other Intangible Assets” 10. para. (FASB, 2001); thus these costs shall be immediately recognized as an expense when incurred. The exception is the internally developed computer software, which is envisaged for its further external realisation. The accounting of such computer software is regulated by a special

standard — SFAS No.86 “Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed”. The standard provides that all costs related to the development of such software shall be recognized as the expense of current period — like other research and development costs. However, since the moment, when the company’s management considers the technological feasibility of software development, the software costs are capitalised as an intangible asset. The technological feasibility of software is characterised by a detailed program design of this object or an existing working model. Such capitalised internally developed computer software is gradually amortized within the process of its sale in conformity with the accruals basis, namely, in proportion to the revenue gained from the realisation of software.

The authors believe that it is admissible to perform the accounting of the costs of software envisaged for the further external realisation like any other research and development costs, thus the research costs of such software shall be included into the expense of accounting period, but its development costs, if the respective criteria come true, shall be recognized as an intangible asset. This shall be justified by the fact that there are no differences on principle between the method applied for the accounting of software costs and any other process, object, which is developed by the enterprise for the business goals. Such position does not contradict also with the methods of research and development costs accounting provided by IAS No.38 “Intangible Assets”.

Having studied the specialized economic literature, the authors draw a conclusion that the most detailed criteria for the capitalisation of development costs are provided by IAS No.38 “Intangible Assets”. The applicability of these criteria in practice has been studied by several specialists: B. Lev, J.Baetge, I. Keitz, S.Dawo, L.Hepers, K.Kuting, S. Schreiber a.o. The conclusions drawn by these specialists have been used for research purposes by T. Mindermann, who at the 30<sup>th</sup> Annual Congress of the European Accounting Association in 2007 presented the paper on the problem, whether IAS No.38 “Intangible Assets” really provide useful information for the capitalisation of internally generated intangible assets.

T.Mindermann has emphasised that the first recognition criterion of technical feasibility is barely illustrated in the specifications of IAS No.38 “Intangible Assets” so that the enterprise has the opportunity to base decisions on whether or not a project is technically feasible in its subjective point of view. Because of its similarity the definition of technical feasibility generally follows the US GAAP rules of accounting for the costs of software. Accordingly, a software program has established technical feasibility when a detailed program design or working model has been completed. However, the following of SFAS 86 “Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed” may substantiate the technical feasibility for software but it is not adequate for other intangible items. Furthermore, the recognition criterion of technical feasibility is only sufficient for traditional product or process development. For other intangible items (like brands) the question of technical



feasibility is negligible. To meet the second criterion for recognition, the company has to intend completing the intangible asset for internal usage or external selling. This criterion results from application of the framework and IAS 1. The intention of completion is sufficiently proven if development is continued until the point of preparation of the annual financial statement. This is based on the argument that a businessman would never continue development if he did not intend to finish it. The third criterion for capitalisation recognition is the ability to internal use or external sale which results from the basic economic principles. These economic principles imply that companies would not develop an intangible asset unless it was internally used or externally sold. This criterion is met, if legal or effective measure lead to presumption that the potential benefit is accessible. The fourth criterion requires a verification, in which terms the asset is likely to yield benefits. Following IAS No.38 "Intangible Assets" para. 60, this proof has to be documented according to IAS 36. In case of selling intangible assets or products which were produced with the aid of intangible assets, the existence of a related market has to be based on market research. In case of internal use the intangible assets potential benefit depends on the technical and economic consistence and is therefore mainly determined by the criterion of feasibility. In case of an internal use future economic benefits have to be based on the estimation of the net present value of payment flows. The criterion of possessing adequate technical, financial and other resources for completion and the subsequent utilization can be met – in compliance to IAS 38 para. 61 – by presenting a business plan showing the needed resources and the company's ability to mobilize these resources. Regarding the availability of debt capital a letter of intent from the lender is accepted as a qualified proof. The last criterion for capitalisation recognition requires a reliable valuation of all expenditures connected to the developed intangible asset. This is when an appropriately equipped costing system is able to reliably determine the cost of production (Mindermann, 2007).

The research performed by T.Minderman shows that the specialist mostly criticize the difficulty to apply in practice the criterion for the capitalisation of development costs - the technical feasibility of completing the intangible asset so that it will be available for use or sale. This criterion is provided by IAS No 38 (criterion 1), the UK GAAP (criterion 3), and it is related to all types of internally generated intangible items. Whereas in the US GAAP it is applied only to internally developed computer software, envisaged for its further external realisation. Of course, in relation to such computer software it is admissible that its technical feasibility is proved by a detailed program design or a working model. However, the problem is – how to prove the technical feasibility of other internally generated intangible items. The authors agree to the specialists' point of view that in the case of other internally generated intangible items it might be difficult or even impossible to prove the technical feasibility by means of a detailed program design or a working model. This shall be justified by the fact that each of them is unique and mutually irreplaceable, for example, copyrights. The authors believe that the technical substantiation is not the main

capitalisation feature of these items; most important is to have a conclusive proof on the feasibility of their completion and use, as a result of which the company will receive the flow of economic benefits in future.

Other internally developed identifiable intangible items such as internally generated patents, trademarks and similar rights and assets are very specific intangible items, their recognition and recognition and accounting is difficult due to the fact that generated future economic benefits to the company are uncertain. It is also showed by different accpunting policy summarised in Table 2.

As we can see in Table 2, IAS and UK GAAP admit, with the exceptions, the capitalisation of other internally developed identifiable intangible items, if the respective conditions come true. In conformity with the provisions of IAS No.38 "Intangible Assets", studied in this article earlier, the standards permits the recognition of internally generated identifiable intangible items as assets if the following comes true: the criteria for the asset recognition, the definition of intangible assets and the specific criteria, as a result of which there are capitalised the internally generated intangible assets that arise from the development phase of a project. However, even if all above mentioned conditions come true, the standards (para. 63 and 64) prohibits for the capitalisation of internally generated brands, mastheads, publishing titles, customer lists and items similar in substance. The substantiation for such policy is the fact that expenditure on such items cannot be distinguished from the cost of developing the business as a whole (IASB, 2001). In the UK GAAP, in conformity with FRS 10 "Goodwill and Intangible Assets" para. 12 and 14 (ASB, 1998), it is provided that internally developed intangible items may be capitalised only if that asset has a readily ascertainable market value. It is also pointed out that it is not possible to determine a market value for the unique intangible items such as brands and publishing titles, therefore they are not recognised as intangible assets. This means that only a limited range of internally developed identifiable intangible items can be recognised as intangible assets. It is considered that internally developed patents, copyrights, trademarks, franchises, and other assets will be recognised at the cost of creation, exclusive of costs which would be analogous to research (Epstein, B.J., Jermakowicz E.K., 2010, p. 369).

As it was mentioned above about the accounting policy of internally generated intangible items accepted in the USA, in this country it is forbidden to capitalise research and development costs (except for the computer software developed for sale). Thus SFAS No.142 "Goodwill and Other Intangible Assets" para. 10 provides that the costs of internally developing, maintaining, or restoring intangible assets (including goodwill) that are not specifically identifiable, that have indeterminate lives, or that are inherent in a continuing business or non-profit activity and related to an entity as a whole, shall be recognised as an expense when incurred (FASB, 2001).

The EU 4<sup>th</sup> Council Directive provides that in the balance item of intangible assets “Concessions, Patents, Licences, Trademarks and Similar Rights and Assets” may be disclosed these rights and assets created by the undertaking itself, but at the same time the priority in this aspect is given to the national law of Member States.

In Latvian accountancy there are determined special restrictions on the capitalisation of any separate special types of internally generated identifiable intangible items. It should be pointed out that on the whole the accounting policy in relation to these specific items accepted in Latvia is similar to the procedure provided by IAS No.38 “Intangible Assets” (See Tables 2 and 3) and to the provisions of the EU 4<sup>th</sup> Council Directive.

### **3. FUTURE ISSUES**

As it was established in the 2<sup>nd</sup> part of article, only an insignificant part of internally generated identifiable intangible assets may be capitalised and disclosed among the company assets (See Table 2). Thus the users of financial statements do not receive adequate and relevant information on the resources at company’s disposal. In order to evaluate the possible ways how to change the situation, the authors will describe in brief the views expressed in the literature on the reinstatement of previously expensed costs associated with the development of an internally generated intangible items; the authors will study the determination of the value of internally generated patents and trademarks and analyze the validity of the capitalisation of the development costs of software developed internally for in-house use.

The relevance of information disclosed in the financial statement on the internally generated intangible items is influenced by the fact that IAS No.38 “Intangible Assets” para. 71 prohibits the recapitalisation of the previously expensed sums of intangible items. In the specialized literature the prohibition provided by the standards has been criticised by several specialists. They suggest reinstatement of previously expensed costs associated with the development of internally generated intangible items once that meets the asset recognition criteria, thus there would be improved the relevance of financial statements (Lev and Zarowin, 1999; Hoegh-Krøhn and Knivsflå, 2000; Mindemann, 2007). Hoegh-Krøhn and Knivsflå suggest the reinstatement of previously expensed costs should be only allowed if a potential intangible asset was already previously disclosed in the financial statement notes. This would disallow companies to arbitrarily capitalize previously expensed costs.

As it was established within the research, IAS No.38 “Intangible Assets” permits recognition of internally generated intangible assets to the extent the expenditures can be related to the development stage of research and development program. Thus, internally developed patents, ..... trademarks, ..... will be recognized at the cost of creation, exclusive of costs which would

be analogous to research (Epstein, B.J., Jermakowicz E.K., 2010, p. 369). However, in the studied specialized literature there was not included, how to determine the costs of these internally generated patents and trademarks. The authors suggest that the costs of internally generated patents and trademarks should be based on the main stages of their development and registration procedure, which are represented graphically in Figures 1 and 2.

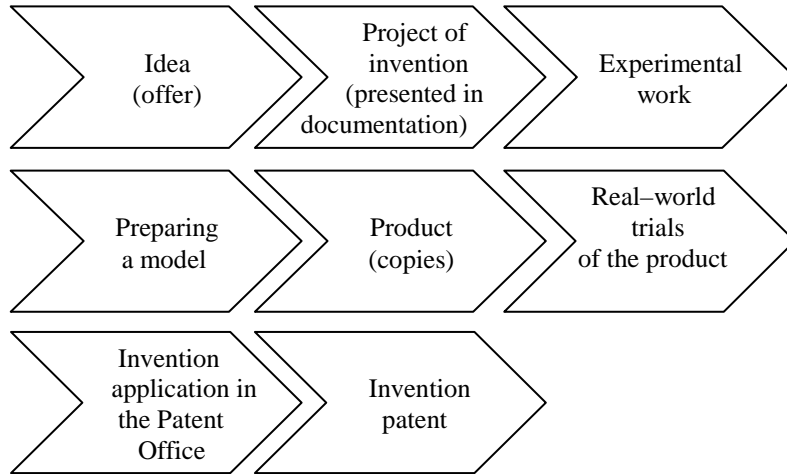


Figure 1 Main Stages of the Development and Registration of Internally Generated Invention Patent

Notes: The authors assume that the registration of patents in other countries is similar to this process in Latvia

Source: authors' own.

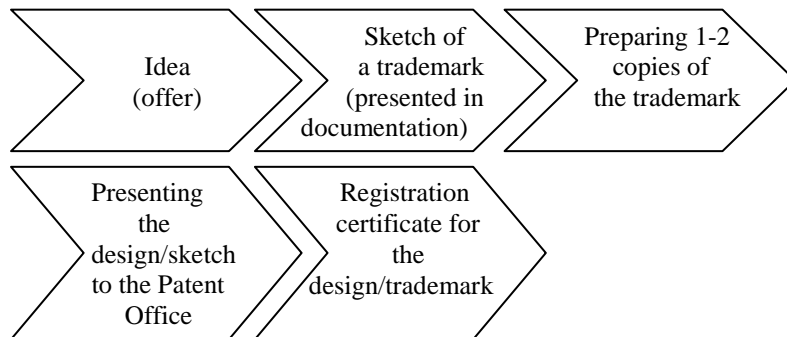


Figure 2 Main Stages of the Development and Registration of Internally Generated Design/Trademark

Notes: The authors assume that the registration of design/trademarks in other countries is similar to this process in Latvia

*Source: authors' own.*

According to the authors' point of view, on the basis of scheme showed in Figure 1, the value of internally generated invention patent is comprised of the following elements:

- wages of staff employed in the development of an invention patent and the employer's social contributions (the development and implementation of the project of invention, preparing a model and production of some ready products, un the product trials);
- the value of fixed assets acquired for the development of a particular patent, the depreciation costs of fixed assets to be used for the development (performing of experimental work, preparing a model and production of some ready products – experimental stands, measuring equipment, instruments, the respective elements etc.);
- the costs of material values used as a result of development (performing of experimental work, preparing a model and production of some ready products – different types of raw materials);
- the costs of work performed and services provided by other legal and physical entities (the development of the project of invention and experimental work – the costs of consultation services; the submission of an invention to the Patent Office – the costs of legal processing of documentation etc.);
- company's general costs that could be related to the execution of particular work.

The research shows that the development of designs/trademarks is similar to that of inventions. The main difference is that the stages of development of trademarks and most designs do not include the testing of finalised product sketches, production of individual models or the trials of trademarks and designs in their intended environment. This can be explained by the fact that the projects of these objects are mostly "paperwork", which results in the drafting of 1 or 2 copies to be presented to the Patent Office along with other relevant documents. Since it is impossible to observe drastic difference between the development of an invention patent, design/trademark, then the elements composing their value are identical.

Thus, the value of resources used at the main stages of the development of internally generated patents and trademarks may form such intangible items costs. Of course, after each development stage or at least once a year it is necessary to evaluate the correspondence of project to the criteria of development costs capitalisation and the costs accrued for the period shall be either capitalised or written off. If in future the specialists and setters of standards will have conformity of opinions regarding the reinstatement of previously expensed costs

associated with the development of internally generated intangible items, then it will be necessary to make the respective corrections at the end of period.

Having studied the specialized literature, the authors have found that the specialists disagree on the following issue – is it justifiably to capitalise the development costs of the software internally developed for in-house use? The problems are caused by the fact that IASB does not provide for any special requirements on how an enterprise shall licence such computer software, or on what other document proves the company's property rights regarding the internally developed software and that could serve as a justification for its capitalisation. For example, Epstein, B.J., Jermakowicz E.K. present a point of view that internally developed computer software cannot be recognised as an intangible asset. The specialists substantiate their point of view on the aspect that while the program developed may have some utility to the entity itself, it would be difficult to demonstrate how the program would generate future economic benefits to the entity. Also, in the absence of any legal rights to control the program or to prevent others from using it, the recognition criteria would not be met (Epstein and Jermakowicz, 2010, p. 370).

According to the authors' point of view, the computer software developed internally for the in-house use may be capitalised and the above mentioned arguments do not justify the prohibition to recognise the internally developed computer software as an intangible asset. This could be substantiated by several arguments. Firstly, in conformity with IAS No.38 "Intangible Assets" para. 13, the legal enforceability of right is not a necessary condition for control because an entity may be able to control the future economic benefits in some other way. In this case it is necessary to take into consideration that, in conformity with the provisions regulating the protection of copyrights, if the computer software has been developed by an employee, while fulfilling the work task, then all property rights in relation to computer software generated in such a way are owned by the employer, thus the company also controls the computer software and its generated economic benefits. Secondly, the computer software complies with the intangible asset definition provided by IAS No.38, i.e. it is an identifiable non-monetary asset without physical substance, because theoretically it might be separated from the company and sold, leased or exchanged, if the company would have such an intent. Thirdly, if the realisation of computer software development project is rational, as well as, if the anticipated useful life of software in the company is sufficiently lengthy, it is able to ensure economic benefits in a form of savings for the payments of software licence. Fourthly, if the company carries out accurate and detailed monitoring of computer software development process, and there exists an efficient internal control system at the company, then the accounting department shall have sufficiently detailed information at its disposal on the costs of this process in order to evaluate credibly the costs of internally generated intangible item.

The fact that the recognition of internally generated computer software as intangible assets is logical can be justified also by the application of respective

accounting policy in practice in the USA. In conformity with ASC No.350 "Intangibles - Goodwill and Others", the development project of computer software is divided into three stages: preliminary stage, development stage post-implementation/operation stage). Besides, in conformity with ASC No.350, the development stage, according to its essence, is identical to the development stage provided by IAS No.38. ASC No.350 provides that the costs of preliminary stage and operation stage shall be written off relating them to the financial result. In relation to the costs of development stage it is pointed out that all costs related to this stage and the development of computer software envisaged for the in-house use shall be capitalised.

Thus we can draw a conclusion that the provisions of ASC No.350 do not contradict with those of IAS No.38. They do not supplement the international standards, but only attribute the same accounting requirements to a particular type of internally generated intangible asset – computer software developed internally and envisaged for in-house use. The USA GAAP shall be considered as positive, because thus there has been precisely determined that the capitalisation of software internally developed for in-hose use is possible, and thus there have been eliminated the possible misunderstandings that could arise in relation to the accounting of these objects.

#### **4. CONCLUSIONS AND FUTURE WORK**

According to their economic essence and types the internally generated intangible assets are complicated and different; this, according to the authors' point of view, causes the differences in relation to the accounting policy of these assets. The main controversial aspects, influencing the choice of their accounting policy, are the following: the difficulty to prove their existence, the reliability value determination and the probability of the flow of economic benefits. Therefore, as established by authors, only an insignificant part of internally generated intangible assets may be capitalised and disclosed in the company's assets.

The performed research shows that the USA accounting policy in relation to internally generated intangible assets differs significantly from the internationally accepted approach. If the respective conditions come true, in the USA only software internally developed for in-hose use could be capitalised as an internally generated intangible asset. At present the aligning of the provisions of the USA and IAS takes place at an international level.

It is concluded in the research that in the documents regulating accounting (except for the USA) it is permitted to capitalise the internally generated patents and trademarks as intangible assets. However, in the studied specialized literature it is not showed, how to determine the costs of these patents and trademarks. Therefore the authors suggest that the determination of the costs

of internally generated patents and trademarks should be based on the main stages of their development and registration procedure.

It should be added that the authors plan to continue this research in future, including also the comparison and evaluation of the internally generated intangible asset accounting treatment as accepted by the EU companies. It is also necessary to perform more profound evaluation of the justification of capitalisation in relation to the reinstatement of previously expensed costs associated with the development of an internally generated intangible.

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