

Financial Implications Regarding the Intangible Assets - Occasioned Costs by the web-sites Construction

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Abstract

Enterprises frequently spend resources or they incur debts in order to purchase, to develop, to maintain or to extend the intangible resources, as the scientific and technical knowledge, the projection or the implementation of new processes and systems, the licenses, intellectual ownership, the knowledge about markets and trademarks (including the names of trademarks and the publishing titles).

A few examples of elements incorporated in these board directions make a reference to: software, patents, copyrights, movies, lists of consumers, rights regarding the mortgage services, fishing licenses, import quota, franchises, and the relations with consumers or suppliers, the consumer's loyalty, the market share and the marketing rights.

In this paper we tried to point out the financial implications regarding the web-sites construction in the context of the SIC 32 "Intangible assets - Associated costs with web-sites creation".

Keywords: intangible assets, technical knowledge, depreciation, hardware, software, website development.

Introduction

The total research within the field of intangibles presents different meanings given to this term: expenses, investments, resources, assets. Pierrat and Martory specified that: „scientific literature and official documents do not employ clear definitions for the notion of intangible asset. Most authors prefer to proceed to a simple enumeration of the main components of the assembly, whilst the official accounting documents give an unclear definition to this notion” (Feleagă, and Malciu, 2004, p. 122).

Thus, under Order 1752/17.11.2005 for the approval of Accounting Regulations according to European Provisions, and with the subsequent modifications and completions one of the elements within the economic agents patrimony is an intangible. It is defined in such terms as: “an intangible asset is an unidentified, non monetary asset with no material support owned for use in the process of production or supply

of goods and services, in order to be lent to third parties for administrative puposes" (OMFP 1752/17.11.2005, 2005, p. 32).

The specialized literature considers that intangibles are a combination of expenses and investments, that is, they cannot be taken as usual expenses, in their purposes for the administration of amounts employed or their shortage, nor as usual investments, their profitability being a financial one and thus the quality effects resulted are very important.

Analysing the activity of an enterprise one can point out the fact that in the preliminary stages the intangible investment in technology is dominant. An example can be the virtual more and more present in the life of an enterprise. And thus a quality plus can be offered to the decision and organization levels.

Within the virtual, one can note such elements of the type of a website. A website is extremely useful for an enterprise, for both external and internal use. The external use refers to promoting and advertising the products (services) of the enterprise (effective service delivery, effective sales of goods - electronic commerce). The internal use provides a series of relevant information as: internal regulations, policies in different fields, customers, suppliers, etc. A website may be developed for both external and internal use. The following paper deals with internal development and operation.

Interpreting centralized information

When developing a website, there are a series of standard stages, as follows. On the mentioned structure, we are to follow the standard activities and the financial implications as well as their recognition for an accounting point of view. For the survey in question, the sample is represented by ten enterprises which were given a questionnaire in order to record the mentioned aspects (we gathered the significant data).

Planning - This stage consists of a series of essential sub-stages to develop a website:

- preparing feasibility studies;
- defining objectives and technical specifics;
- evaluating technical and financial alternatives;
- selecting alternatives according to well defined criteria.

1. initiate the feasibility studies

**Brief
description**

- The following elements will be analyzed:
- enterprise: field of activity, identification data, brief history;
 - investment presentation: asset portfolio, investment project, plan of investment achievements, financing plan;
 - operational and commercial analysis: technical and production capacity, service offer, market and marketing, commercial management, promotion and distribution, prices;
 - enterprise management: strategy, organizational structure, information system;
 - financial analysis: economic and financial

	diagnosis, future activity evaluation
	2. completing hard and soft specifications
Brief description	Hardware: 2 personal computers (for development) with the following characteristics Pentium IV, RAM 512Mb, HDD:80Gb. Software: Linux and Windows XP (operation system), Apache (web server), MySQL (database server), PHP (programming language), Corel Draw (image vectoring), Macromedia Fireworks (image processing), Macromedia Dreamweaver (web page editor), FileZilla (FTP utility) (Şerbănescu, 2006, p. 207)
	3. evaluating product and supplier alternatives
Brief description	The offers on the market are analyzed
	4. selecting preferences
Brief description	The economic criterion is used to designate the winner
Recognition	All elements mentioned above are recognized as costs when they meet the requirements - the Planning stage is similar to the research stage established by IAS 38 - Intangible assets: "No intangible asset that comes from research (or from the research stage of an internal project) should be recognized. The research expenses (or those from the research stage of an internal project) should be recognized when they are made. During the research stage of an internal project, a company cannot demonstrate that an intangible asset exists and that it may generate future economic benefits. Therefore this expense is recognized when it is made" (Feleagă and Duţescu, 2006, p. 1723).
Estimative costs	Approximately: 3.000 EURO

Developing application and infrastructure - This stage contains elementary operations that provide the subsequent running (operation) within the necessary technical and qualitative parameters:

- acquiring a name in the field
- purchasing the hardware
- purchasing and developing the software
- installing the developed applications
- stress testing

Any internal expense with the enterprise's website development and operation will be recognized according to the Intangible assets requirements (the necessary evaluations for booking in the accounts will be made according to the nature of each activity that generates expenses and the development or post-development stage of the website).

	1. purchasing hardware and software
Brief description	The product functional requirements are tested
Recognition	According to the requirements of IAS16 - Tangible assets
	2. acquiring a name in the field

Brief description The field is established .ro, .eu, .com, etc. according to the target users. The possible names of the field are established according to a series of elements, among which: enterprise's field of activity, its name and objectives. The name of the field usually resembles the enterprise's name, eliminating eventual spaces. The availability of the field is checked with a specialized provider as RNC (Romanian National R&D Computer Network - <http://www.rnc.ro>) for .ro fields, EUREG (Extreme Solutions - <http://www.eureg.ro>) for .eu fields. If the name of the field is available, the purchase procedure starts. The purchase procedure is published on the provider's site.

3. developing the operation software (operation system, server software)

Brief description The operation software is installed, because it is necessary during the planning stage, item 2

4. developing the application code

Brief description Image editing and web pages development

5. installing the applications on the web server

Brief description After the website source code is completed, the installment on the server is made by specific procedures

6. stress testing

Brief description The site resistance is tested for a number of simultaneous visits using the purchased software

Recognition This is recognized as costs when they occur, except for the case the expense may be directly attributed to the website for the purpose of use in the manner the management intends and meets the mentioned criteria as follows.

Estimative costs Approximately: 3.500 Euro

A website that results from development is recognized as an intangible asset only if, beside the general requirements described in IAS 38 - Intangible assets for initial recognition and evaluation:

"An intangible asset should be recognized if, and only if:

- it is probable that future economic benefits will flow to the enterprise and
- the cost of the asset can be measured reliably" (Epstein and Mirza, 2005, p. 277)

a enterprise meets the requirements of IAS 38 - Intangible assets:

"An intangible asset generated by development (the development stage of an internal project) is recognized if and only if the enterprise can demonstrate the following:

- 1 the technical feasibility to complete the intangible asset so that it may be used or sold
- 2 its intention to complete, then use or sell the intangible asset
- 3 its ability to use or sell the intangible asset

- 4 how the intangible asset will generate probable future economic benefits. The enterprise may demonstrate the existence of a market for the production generated by or for the intangible asset, or its utility if it is meant for internal use.
- 5 the availability of technical, financial or other adequate resources to develop, use or sell the intangible asset
- 6 its ability to evaluate reliably the expenses attributable to the intangible asset during its development." (Feleagă and Duțescu, 2006, p. 1723-1724)

Developing graphical design - It deals with presenting the web pages (cosmetics).

1. projecting the web page presentation

Brief description This deals with web page form and format

Recognition This is recognized as costs when they occur, except for the case the expense may be directly attributed to the website for the purpose of use in the manner the management intends.

Estimative costs Approximately: 500 EURO

Developing content - Creating, purchasing, preparing and saving information (text or graphic format) on the website before finalizing its development (the storage may be in separate database integrated in or accessed from the website, or encoded directly in the web page/pages).

1. creating, purchasing, preparing and saving information on the website before finalizing its development

Brief description This stage refers to links and identification labels. The information is saved as text or graphic. The content information refers to: enterprise, products or services to sell, access sections for the users.

Recognition This is an expense recognized according to the IAS 38 - Intangible assets if it meets the criterion according to which the site is meant for the advertisement of the enterprise's products and services. On the other hand, it is recognized as costs when they occur, except for the case the expense may be directly attributed to the website for the purpose of use in the manner the management intends.

Estimative costs Approximately: 300 EURO

Specifically, a enterprise can meet the requirement of demonstrating the way its website generates future economic benefits according to IAS 38 - Intangible assets: "the enterprise can demonstrate the existence of a market for the production generated by or for the intangible asset, or its utility if it is meant for internal use" (Feleagă and Duțescu, 2006, p. 2377), when, for example, the website is able to generate income, including direct income from order placement.

In general, the resource availability to complete, use and achieve future economic benefits from an intangible asset may be demonstrated using a business plan that presents the technical, financial and other resources, as well as the enterprise's ability to ensure them. In other situations, the enterprise demonstrates the availability of

external financial resources by getting a creditor's guarantee to finance the plan.

The stages of Application and infrastructure development, Graphic design and Content development (when the content is developed for other purposes than advertising and promoting the enterprise's products and services) are similar to the development stage established by IAS 38 - Intangible assets.

"During the development stage of an internal project, a enterprise may identify, in certain situations, and intangible asset and demonstrate that this may generate future economic benefits. This is because the development stage of a project is more advanced than the research one.

In order to demonstrate the way an intangible asset may generate future economic benefits, the enterprise evaluates the future economic benefits as if they were generated by the respective asset according to the principle of IAS 36 - Asset depreciation." (Epstein and Mirza, 2005, p. 302)

Operation stage - When the development stage is complete, the operation stage starts: the enterprise maintains the operation and use of the created application, but develops (strengthen) some essential aspects (graphic, content, infrastructure). The website of a enterprise that resulted from development for the purpose of internal and external use represents an intangible asset, subject to IAS 38 terms - Intangible assets.

1. updating graphics and revising content

Brief description This operation may be done as many times as necessary to improve and increase attractiveness

2. adding new functions, characteristics and content

Brief description This operation refers to the changes of form and format requested and needed by both users and enterprise

3. register the website by search engines

Brief description The procedure to register a site manually in the database of a search engine is generally performed by filling in a form of on-line registration.

4. secure the information

Brief description This operation is mandatory according to the legal provisions. The enterprise undertakes the task of personal data security and confidentiality. This responsibility does not refer to the eventual loss due to soft errors (the soft used for website conception and hosting), respectively the eventual failure of the host server

5. revising the access safety

Brief description If deficiency of data security occurs (for both commercial data of the enterprise and users personal data), the security level may be increased, using a series of technical procedures

6. analyzing website use

Brief description This sub-stage refers to website attractiveness for the users. This analysis is used for an eventual optimization of the website use (keywords, efficient titles, description, design, source code, catalogue registration, etc.)

Recognition This is recognized if it meets the definition of an

intangible asset. (Epstein and Mirza, 2005, p. 277)

Estimative costs Approximately: 300 - 500 EURO

All expenses resulted from this activity are recognized in accounting on two bases:

- If the website has the form of an intangible asset, then it is recognized in accounting according to the IAS 38 terms - Intangible assets.
- If it does not have this form, then it is recognized as any expense.

The expenses do not include those expenses with hardware purchase, development and operation for a website (web servers, including configuration, Internet connections - they belong to IAS 16), as well as those expenses with Internet provision in case of website hosting (effective costs according to the requirements of the Conceptual framework).

OTHER EXPENSES

1. sale expenses, administrative and global expenses, except for the case they are directly attributed to the website for the purpose of use in the manner the management intends
2. identifying precisely the operation inefficiencies and initial loss that occur before the website reaches the planned performances
3. training employees on website operating

Recognition This is recognized as costs when they occur, according to requirements.

Estimative costs Approximately: 300 - 700 EURO

Given such terms, expenses are recognized according to the following (Bengescu, 2005):

- the expenses are recognized in income statement when the future economic benefits reduce, due to an asset decrease or a debt increase, and this reduction may be reliably evaluated (expenses are booked simultaneously with debt increase or asset decrease)
- the expenses are recognized in income statement according to a direct association between the implied costs and the income specific elements (the costs are correlated with the incomes, that is the simultaneous or combined booking of incomes and expenses that result directly and simultaneously from the same transactions or events).
- the expenses are recognized in income statement when a cost generates no future economic benefit or when the future economic benefits do not correspond (anymore) to the balance sheet criteria as assets.
- the expenses are recognized in income statement when a debt occurs without booking the asset (debts resulted from a product guarantee).

IAS 38 - Intangible assets is not applied for the intangible assets owned by a enterprise and meant to be sold as the enterprise runs normally (this case is included in IAS 2 - Stocks and IAS 11 - Construction contracts), or the leasing contracts that belong to IAS 17 - Leasing (expenses with website development or operation, respectively the software of a website to be sold to another enterprise). When a website is subject to a financial leasing contract, the occupant uses this interpretation after the asset involved is booked.

We may add here that all those elements that cannot be separated from the cost of business development will not be recognized as intangible assets (expenses with brands, bonds, customer lists, etc.).

The expenses within the stage of Content development, if this is used to advertise and promote the enterprise's products and services, will be recognized as costs when they meet the requirements of IAS 38 - INTANGIBLE ASSETS: "the expense is generated for the purpose of future economic benefits, but no other intangible asset or achieved or created asset will be recognized" (Van Greuning, Koen, 2003, p. 148)

- the Operation stage starts when the website is complete, and any expense during this stage is recognized as costs when it meets the requirements of IAS 38 - Intangible assets, meaning to respect the definition of intangible asset and the criteria of its recognition

After an intangible asset is initially recognized in accounting, it may be evaluated at its reduced costs with any cumulated amortization or loss from accumulated depreciation (cost model), or at its revaluated value, meaning the exact value on the date of revaluation (settled by reference to an active market), reduced by any previous cumulated amortization and any loss from a previous accumulated depreciation (revaluation model). (Van Greuning, Koen, 2003, p. 148)

Conclusions

- the expenses with an intangible element are recognized as costs when they occur, except for the case the respective element is included in the cost of an intangible asset recognized according to the criteria of IAS 38 - Intangible assets
- internal project research expenses are recognized as costs when they occur
- the intangible assets resulted from an internal project will be recognized only if the enterprise can demonstrate the mentioned criteria (1-6) are fulfilled
- the cost model is applied when evaluating websites, because the revaluation model refers to an active market hard to determine in this case, and the revaluation would establish the value at certain periods (due to the rapid technological development in this field, the website useful life is relatively short).

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