

**INTELLECTUAL PROPERTY:
ACCOUNTING AND REPORTING**

RIZAYEV NURBEK KADIROVICH

Banking and Finance Academy of the Republic of Uzbekistan

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Abstract: Intellectual Property (IP) is a set of exclusive rights to both personal and material nature on the intellectual and creative activity. Using the income method value of intellectual property is defined as its ability to bring a buyer or investor to profit in the future and is equal to the current value of net income, which can be obtained from the use of IP for the estimated economically sound life. Analysis and discussion is presented herein.

Introduction

Intellectual Property (IP) is a set of exclusive rights to both personal and material nature on the intellectual and creative activity. The main criterion for recognition of IP is an exclusive right or protect ability results of IP. From accounting point of view of IP is an intangible asset (IA) do not have a-kind, capable of bringing economic benefits in the future. In accordance with the functions performed in the social production of intangible assets are divided into the following groups:

- Intellectual property - the exclusive right to patent an invention, industrial design;
- Organizational costs - costs of creating a package of constituent documents and calculations to substantiate areas;
- Goodwill of the company - the goodwill is determined at the time of sale of the organization as the difference between the amount paid for the item and its appraised value.

In accounting, all intangible assets are valued at cost, which is the sum of actual costs to acquire them without IA and other recoverable taxes. In terms of journal-made out to order forms accounting synthetic register to record the movement of this group of IA assets is the log-order number 13. The depreciable amount of IP should be allocated on a systematic basis over the Top Rated of its useful life. Amortization of IP can be effected by one of the following ways:

- Straight-line method. Depreciation are distributed evenly throughout the life of the asset.
- Production method. Depreciation allowance is based on generation of IP in any given year.
- Method reduces the balance. The essence of this method lies in the fact that twice the rate of deterioration of the straight-line method is applied to the residual value of IP.
- Method sum years (cumulative method). The essence of this method is that the rate of depreciation in each year is defined as the proportion of amortized cost, which remains until the end of depreciation
- The useful life of IP is defined by an economic entity in making the objects on the account. ITN on the useful life established on the basis of the validity of patents, certificates, licenses under the law.

Feature evaluation of IP is as follows:

- There are no similar objects and similar conditions, and implementation;
- Evaluation is strictly targeted;
- Cannot be a universal method of evaluation.

IP can be assessed as an independent object, or as part of the business. Often it is the latter approach is the most faithful, as an investor importantly - make a profit.

The basis of the cost approach is the cost accounting of actual costs for the creation, legal protection, acquisition and use of the estimated object of IP for the last period, adjusted for inflation and all losses. In determining the value of IP-based market-based approach applies the method of direct sales comparison, which involves determining the value of IP at the price of transactions - the sale of similar IP, adjusting for difference in the characteristics of the object being evaluated and analog IP.

Using the income method value of intellectual property is defined as its ability to bring a buyer or investor to profit in the future and is equal to the current value of net income, which can be obtained from the use of IP for the estimated economically sound life.

Main text

Intellectual property (IP) is one of the fundamentally new sites accounting and reporting, appearing in its theory and practice at the stage of economic modernization in Uzbekistan. The introduction of intellectual property objects (IPO) in the Uzbek economy during the transition to market economy required the development and adoption of various laws governing the ownership of these objects, procedures of their protection and application in production, as well as the formation of normative methodical base of these objects cost appraisal and their accounting in the economic activity. Intellectual property in our Republic was declared as a new type of property in early 1991. Since then the term is used in conjunction with the outcome of intellectual property and rights to these results, as well as the characteristics of scientific and technological potential of an individual enterprise. Corresponding to the international agreements and our national legislation the generalized definition may be formulated as follows: the intellectual property is a set of exclusive rights of both personal and material nature to the results of intellectual and creative activity. The main criterion for IPOs recognition is an exclusive right or protect ability of the results of intellectual activity. For this reason the list of intellectual property objects will reflect the state of the law of a country in a certain period of time and may vary accordingly. At present, we can state that in Uzbekistan there is a special branch of the civil law that is the right of intellectual property. The main Act is the Civil Code of the Republic of Uzbekistan, with subordinate special laws protecting the exclusive rights to the individual results of intellectual activities.

In accordance with article 1031 of the Civil Code of the Republic of Uzbekistan the following refer to the objects of intellectual property:

- Results of intellectual activities:
- The works of science, literature, art;
- Performances, phonograms and broadcasts of broadcasting organizations;
- Programs for electronic computers and databases;
- Inventions, utility models, industrial designs;
- Selection achievements;

- Undisclosed information including trade secrets (know-how).

In terms of accounting the IPO is an intangible asset – i.e. is an asset, not having a material form, capable of bringing economic benefits in the future (for use in production, on performing a work or providing services for the management needs of organizations, in business). The following conditions are also necessary: the object of an intangible asset should be entitled to these economic benefits. The properly executed documents confirming the existence of the assets and rights of the organization to the result of intellectual activity or means of individualization - patents, licenses and other security documents, contract of alienation of the exclusive right to the result of intellectual activity or means of individualization, documents certifying the exclusive right assignment without a contract.

Intangible assets (or intellectual property) comprise a part of long-term assets. The intangibles refer to the accounting objects used in the organization above one year, possessing non-physical properties, but enable to earn permanent income or for long periods of their operation.

The intangible assets(IA) accounting is carried out in accordance with the national accounting standards (NAS 7, “Intangible Assets”) in the Republic of Uzbekistan.

The notion of certain types of IA carries a different interpretation. However, they can be assigned to this group of long-term assets provided the organization has documents proving their existence and the exclusive right to the results of intellectual activity. Intangible assets as the object of financial accounting is typically a combination of the following characteristics:

- Absence of material basis;
- Uncertainty of the operation timing;
- Multi-purpose use, etc.

The composition of IA is quite diverse and depends on the organization and the level of scientific and technological progress development in the country. In accounting, they are grouped into a number of grounds. In accordance with the functions performed in the social production the IA are divided into following groups:

1. Intellectual property - The exclusive right of a patent holder to an invention, industrial design;
2. Organization expenses - costs of creating a package of constituent documents and calculations as to substantiation of their activity directions;
3. Goodwill of a Company, determined at the time of a organization selling out as the difference between the amount paid for the object and its appraised value.

In accounting all IA are appraised at an initial cost, which is an amount of actual expenses for their purchasing without value added tax and other recoverable taxes (except in cases stipulated by the legislation of the Republic of Uzbekistan).

The costs associated with the payment of purchased IA (costs of opening a letter of credit, bank commission for transfer, the commission on currency exchange when buying IA for foreign exchange and other banking services), with the preparation, registration and closing contracts for the acquisition, other expenses not directly related with the acquisition of assets not included in the initial cost of IA, and should be recognized as an expense in the period in which they arise.

Example: Company «Bunyodkor» purchased the copyright for \$ 50.000. Under the terms of the author's agreement to own and dispose of this right within 4 years. The current market price less costs to sell a similar copyright after 4 years of use is \$ 10.000. This amount may be accepted as equivalent to the liquidation value of copyright.

Amortized cost of \$ 50,000-\$ 10,000 = \$ 40,000 and amortization for the year will be \$ 10.000 (\$ 40.000 / 4 years).

After 4 years of age «Bunyodkor» sell the copyright for \$ 10000. Costs to sell will not.

	PLS/BS	Debit	Credit
Amortization costs	OITY	\$10.000	
Amortization	BS		\$10.000
<i>Amortization of copyright for the year</i>			
Intangible asset	BS		\$50.000
Amortization	BS	\$40.000	
Cash	BS	\$10.000	
<i>Sale of copyright after 4 years</i>			

PLS - Profit and loss statement; **BB** - Balance Sheet

The selected method of the IA appraisal should be recorded in the accounting policies of the organization. Accounting for the presence and flow of IA is carried out on account 0400-0490 "Intangible Assets" and account 0500 "Amortization of intangible assets" on the basis of the following ledgers:

- Acts of reception - transfer (Form IA-1);
- Minutes of meetings of the Board of economic entities;
- Acts of writing off IA (Form IA - 2);
- Statement of amortization (Form IA-3).

With the use of ledger and order forms of accounting the synthetic ledger of this group of IA flow accounting is the ledger-order number 13. All operations of IA flow are accounted as capital investments and reflected in the debit 0830 "The purchase of IA". When the objects of IA are entered as a contribution to owners' capital, initially the members arrears of contributions are reflected:

Debit 0830 "The purchase of IA".

Credit 4610 "Payments on contributions in owners' capital"

Intangible assets are used for a long time, and transfer their value to the newly created products and services rendered gradually being amortized (worn out)

The depreciable amount of intangible asset should be allocated on a systematic basis over its best-evaluated useful life.

If it is impossible to determine the useful life, the amortization period is set for 20 years at most. The amortization should commence when the asset is available for use: Invention – 20, Useful Model – 5, industrial design – 10, Trademark – 10, Computer Programs – 50, Topology of Integrated Circuits – 10, selection achievements- 20, Objects of Copyright The entire life of the author +50, Know how - at will.

Amortization of intangible assets (IPO) may be effected by one of the following ways:

Straight-line method. The cost of depreciation are distributed evenly throughout the service life of the asset:

$$\text{Initial cost} - \text{salvage value} / \text{useful life}.$$

Manufacturing method. Depreciation are based on developing IA (IPO) in any given year:

$$\text{Initial cost} - \text{salvage value} / \text{number of units of work}.$$

1. Declining balance method. This method implies double rate of depreciation from straight-line method is applied to the residual value of IA:

$$100 / \text{useful life} * 2$$

2. The sum-of-the-years'-digits method (accumulated method). This method implies computing the rate of depreciation in each year as a percentage of amortized cost, which is left till the end of the period of depreciation:

$$C = \text{Useful life} (\text{useful life} + 1) / 2 \\ (\text{Useful life} / C) * \text{Amortized cost}.$$

Useful life of IA is determined by an economic entity in registering the objects. Useful life of IPO is computed on the basis of validity of patents, certificates, licenses under the laws of the Republic of Uzbekistan. If it is impossible to compute the useful life of any types of IA, it is determined as five years (but no more than the life of the economic entity).

For IA depreciation the counteractive regulatory account 0500 "Depreciation of intangible asset" is used, which allows to retain the original assessment of accounting objects at the account 0400 "Intangible assets". In the current period, the amount of accumulated depreciation is included in the costs of the entities and the following accounting records are made:

- Debit 2010 - "Basic Production", 2310 " Auxiliary production", 2510 "Total expenditures ", 9400 " Period Expenditures ".
- Credit 0500 - "Depreciation of intangible assets.

The depreciation is not included into production costs on the IA objects used for production purposes.

In the modern information economy, intangible assets consist primarily of intellectual property and have gained much more important role rather than physical tangible assets of entities reflected in the

balance sheet. Problems related to the use of intellectual property can be divided into the following groups:

- Problem of regulating the relations while creating intellectual property objects at an enterprise;
- Problems of acquisition and payment of property rights to the use of intellectual property objects created outside an enterprise;
- Problems of maintaining security and legal protection of intellectual property;
- the problem of commercial use of intellectual property as intangible assets of an enterprise;
- Financial and economic issues of using intellectual property and arranging its accounting, including:
 - first, an inventory of intellectual property objects;
 - second, proof of ownership;
 - third, appraisal of intellectual property;
 - fourth, accounting, auditing and taxation of intellectual property;

For the appraiser of any kind of intellectual property there are two main legislative instruments to be guided to. That is the Law "On appraisal activity" and appraisal standards required to use by a subject of appraisal activity in the Republic of Uzbekistan, approved by the Cabinet of Ministers of the Republic of Uzbekistan. However, these documents are common for all objects of appraisal, and intangible assets are not specially marked out. As of 01.01.2006, the new national accounting standards for intangible assets (IA, NAS-7) were enacted, which must be taken into account by appraiser in his work.

In addition, there are International Standards of Appraisal (ISA-2001), adapted by the International Appraisal Standards Committee (IASC) in 2001, which comprise standards and guidelines for their application, and considerably exceed the previously ISAs in force.

Unlike traditional appraisal objects such as buildings, machinery, equipment and others at appraising intellectual property the value of the amount of rights to the results of intellectual work is computed. Thus, the object of appraisal is the right to the objects of intellectual property, which can be both territorial and temporary, and must be valid. In this regard, appraiser must verify the existence of rights or, at least, the documents confirming the rights to intellectual property. It is complicate to appraise intellectual property not for the appraisal methods, but for it requires proper understanding of specific situations, orientation in the field of innovation, which implies appraiser to :

- be proficient in basic concepts of patent and copyright;
- understand of the role of exclusive rights in the competition;
- be able to apply common appraisal techniques to the objects of intellectual property;
- know basic accounting rules of intellectual property rights included in intangible assets.

Each object of intellectual property is individual in its own way and has its specific use in the production and sale of goods and services. At appraising, the information on the quantitative and qualitative characteristics of the object of appraisal and treatment of its economic use should be used.

The process of appraising the value of intellectual property requires study and the integration of all legal, economic and technical aspects.

For example, it is impossible to determine the price of technology without analyzing its technical feasibility, legal protection, stage, life cycle, the state and dynamics of the market, property prices, as well as possible violations of the rights of the third parties.

Documents	<i>Confirming the existing law on the valuation date to the object of (legal documents, including patent, industrial design, utility model or a certificate of trademark or license agreement, etc.). From the documents must be received complete information on the amount of estimated right to object evaluation.</i>
	<i>Containing information about the presence of charges that apply to the subject being evaluated, including the encumbrance of a pledge or debt obligations, the availability of license agreements, contracts, etc.</i>
	<i>Establishing quantitative and qualitative characteristics of the object estimate and its economic use.</i>

The appraisal of intellectual property is characterized by the following:

1. There is no similar objects and similar conditions and implementation;
 2. The appraisal is strictly targeted;
- There can be no universal method of appraisal.

APPROACHES		
<i>Cost</i>	<i>Market</i>	<i>Returns</i>
<i>Used for inventory, accounting (balance sheet) account also for determining the minimum price of the IP</i>	<i>However, this method has limited application because of the uniqueness and specificity of IP-diversity of the commercial transactions and the confidentiality of information on them.</i>	<i>The most commonly to assess the value of IP is used income method, which is based on economic principles expectations</i>

The basis of the cost approach is the cost accounting of actual costs for the creation, legal protection, acquisition and use of valued objects of intellectual property in the intervening period, adjusted for inflation and all losses. In determining the value of intellectual property based on market-based approach applies the method of direct sales comparison, which involves determining the value of intellectual property at the price of transactions - the sale of similar intellectual property, subject to amendments to the difference in the characteristics of the object being evaluated and analog intellectual property.

Using the income method value of intellectual property is defined as its ability to bring a buyer or investor to profit in the future and is equal to the current value of net income, which can be obtained from the use of intellectual property appraised for economically sound life. At the same time through the discount rate or capitalization is taken into account the market situation and the various risks of income, as well as Risk associated with achieving forecasted results from the use of rights to intellectual property.

Evaluation results obtained using different approaches are taken into account when forming the final cost estimates, using the expression:

$$O = (A1 \times T1) (hTS2 A2) (A3 hTS3)$$

Where $A1, A2, A3$ - weight estimates, $T1, T2, T3$ - value obtained using the comparative, the income approach, respectively, $A1, A2, A3 = 1$.

Example. The following data: the cost of software by the benefits in profit amounted to 400.000-sum, using the advantages of cost-600.000 sum, the method of relief from royalty-sum 200.000. In this case it will be a reliable method is the method of advantages in costs. Therefore, the method of advantages in costs, define the weight of 0.4. The other two methods used, respectively, 0.3. Hence, the cost of software products after the agreement of the results will be:

$$O = (0.3 \times 400.000) (600.000 \times 0.4) (0.3 \times 200.000) = 420.000 \text{ sum.}$$

The personal opinions of the appraiser, may explain the adoption of the unknown quantity the result of one of the approaches. However, if the legality of the use of all three approaches, you may experience problems matching the estimates. In this case, an appraiser with the help of experts or the results obtained independently assigns specific weights in accordance with the highest reliability of the results, the validity of assumptions made by the appraiser.