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FINANCIAL REPORTING ON INTANGIBLE ASSETS – SCOPE AND LIMITATIONS

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Abstract. *Contemporary business conditions are characterized by existence of the need for fulfilling various information demands of broad interest group. In that manner, financial statements provide primarily information about the company itself - its ability to create profit, cash flows and changes on capital, as well as its tangible and financial assets and liabilities. Lack of relevant information on intangible assets (intellectual capital and the like) in the financial statements disables the possibility for external users to perceive real value of the company and adequate decision making. Too rigid criteria for recognition and measurement intangible assets, cause the book value of many knowledge and technology-intensive companies to be few times lower than its market value. In this paper, authors analyze the scope of the existing model of financial reporting in providing relevant information on intangible assets of a company, but they also analyze the limitations that this model faces. In the paper possible directions for overcoming existing limitations are also pointed out, in order to provide relevant information about intangible assets of a company.*

Key Words: *intangible assets, financial reporting, relevant information, international accounting standards.*

INTRODUCTION

The main objective of financial statements is to provide information about the company's financial position, business performance and cash flows. The importance of this information has never been questioned given that it is the basis for making rational economic decisions to a wide range of users. However, the immutability of financial reporting objective does not also mean the immutability of the way in which that objective is achieved. Namely, the processes of globalization, internationalization and concentration of economic power caused the traditional economy, characterized by capital-intensive enterprises, to be replaced by the new economy, which is also called the knowledge econ-

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omy. In such circumstances, modern enterprises, for the most part, base their value generating and gaining a competitive advantage on intangible assets. More accurately, they became one of the key determinants of entrepreneurial values which completely changed the panorama of economic activities. In this regard, the provision of relevant information about intangible assets is one of the preconditions needed to determine the real financial and profitable position of an enterprise.

Bearing in mind that the traditional model of financial reporting is not able to provide relevant information about the company's intangible assets, in the past two decades there have been numerous efforts to overcome its limitations. IAS 38 (International Accounting Standard 38) represents a significant step forward in solving this problem; however, it also has certain limitations which result in the difference between market and book value of the company. For these reasons, contemporary theory and practice see the preparation of reports on intangible assets, as a supplement to the financial statements of the company, as one of the solutions.

1. THE NEED FOR FINANCIAL REPORTING ON COMPANY'S INTANGIBLE ASSETS AND ITS IMPORTANCE

If we start from the fact that financial statements are the primary means of communication between the company and its stakeholders, then the desire of accounting, as a profession is to provide an adequate conceptual framework, which will enable the preparation of high-quality financial reports, is entirely understandable. According to the IASBs Framework for preparation and presentation of financial statements, providing relevant data about assets, liabilities, equity, income and expenses, other changes of the equity and cash flows will enable achievement of objectives of financial statements. More accurately, by reading and analyzing them, the users will be able to:

- get an insight into the history of the company and foresee future performance, presented through future earnings, cash flows, the possibility of fulfilling obligations, perspective in terms of creating added value and the like;
- assess the financial structure of the company (financial health of the company) and its exposure to long-term and short-term financial risks;
- examine the quality of financial statements presented, in terms of the existence of latent reserves and hidden losses, i.e. to assess to what extent they reflect the economic reality;
- carry out a comparative analysis of the company with other possible investors, with the aim of capital allocating to areas of the most profitable use, which contributes to efficient use of resources, encourages investments and stimulates the liquidity of the securities;
- discover the ability of the company to adapt to changes on the market of inputs and outputs, to the changes of technology or to resist the competition;
- enable early detection of signal on the outlook of the company;
- assist the evaluation of company's ability to service its obligations;
- assess the ability of management to create added value [9, p. 23].

Therefore, the information presented in company's financial statement are important to users, since they are the basis for making decisions about allocation of resources, which are always limited. This fact justifies the increased interest of different interest groups for events in the area of financial reporting in general, and financial reporting on intangible assets as well. This happens, primarily, for two reasons.

The first reason lies in the fact that, today, the intangible assets are considered to be the key factor of value generating and the potential of growth and development of a company. Based on knowledge, education, organizational and professional experience, motivation of employees, interpersonal relations and the like, intangible assets become the main factor of material form of value creation and the creation of global competition which in the same time relativises the role of financial and physical capital. The fact is that knowledge has been the main source of long-term economic growth ever since the Industrial Revolution, however, what distinguishes its current meaning, as a generator of growth, is the fact that the information and communication technology accelerated the shift towards a knowledge economy, enabling rapid transmission of information over long distances at low cost. Certainly, the traditional factors of production have not disappeared, but they have become secondary, i.e. it is considered that intangible assets as an element of business operations, in addition to tangible assets, have a primary contribution to company's earning power. Success of the company, for the most part, is an effect of the current knowledge, skill, flexibility and management creativity, which is the key element for gaining the competitive advantage. For these reasons, the information needs of numerous users are directed towards the consideration of a "new" resource of a company, such as internally generated intangible assets, knowledge, relations with stakeholders, organizational culture and the like.

The second reason lies in the fact that the traditional model of financial reporting is fraught with many limitations considering the treatment of intangible assets. Namely, the traditional model of financial reporting allows their presentation in the balance sheet only if they were acquired externally. This way, showing of internally generated intangible investments, i.e. investing in human capital, research and development, advanced technology, relations with customers etc., is absent. So, many categories of intangible assets are not adequately covered by financial statements which caused the market value of many companies, which are knowledge and technology-intense, to be several times lower than the value presented in the balance sheet.

Below, as one illustration, we will demonstrate the relation between book and market value of a company, on the assumption that the book value of the company (the value of tangible assets and externally acquired intangible assets) is set at 1,000,000 $ and market value at 4,000,000 $ [3, p. 67].

Table 1 Current reporting practice versus the market value of the firm

	Book value	Market value
Recorded assets including recognised intangibles	1,000,000	1,000,000
Internally generated intangible assets not recognised as assets in current practise	–	3,000,000
Total assets	1,000,000	4,000,000

The previous table clearly shows that 3,000,000 dinars of the value of the company refers to internally generated intangible assets which could not be recognized or displayed in the balance sheet by the traditional accounting practice. If we look at the relation between the market and book value of the company, i.e. calculate market – to – book ratio, we will see that it amounts 4 dinars. This ratio shows that of every 4 dinars of the market value of the company, only 1 dinar appears in the balance sheet – the remaining 3 dinars refer to internally generated intangible assets of the company.

The situation showed in this way inevitably leads to the conclusion that the traditional model of financial reporting is not able to point to real property, financial or profitable position of a company. As a result, the modification of traditional accounting system, in terms of expanding the possibilities to include the internally generated intangible assets, is inevitable. Namely, the accounting profession is expected not to remain a mere observer of fundamental changes in a modern company. On the contrary, it must actively explore the ways of objective expressing in accordance with accounting principles. The decision-makers in the area of financial standards definition are expected to set recommendations for adequate identification of intangible assets elements, a set of criteria for measurement and standards for its disclosure.

2. THE CHARACTERISTICS OF THE EXISTING SYSTEM OF FINANCIAL REPORTING ON INTANGIBLE ASSETS

One of the causes of reduced relevance of the traditional model of financial reporting can be found in the fact that it ignores the internally generated intangible assets. Therefore, the professional and regulatory bodies launched the initiatives to solve the problems of financial reporting on intangible assets, suggesting that it is necessary to activate this part of property and its valuation by means of accounting standards. Thus, in 1998, the IASB adopted the International Accounting Standard 38 – Intangible assets, which replaced the current standard 9 – Research and Development Costs. IAS 38 is a step forward towards the separate recognition of intangible assets of a company, because, apart from externally acquired intangible assets, it also focuses on the treatment of the internally generated intangible assets. This enables better understanding of the financial position of the company by many users. The Standard prescribes the accounting treatment on company's intangible assets, i.e. gives the criteria for its recognition, defines the way its book value is measured and requires certain disclosures about intangible assets.

2.1 The range of financial reporting on intangible assets of a company

IAS 38 defines the intangible assets as "non-monetary without physical substance that can be identified" [10, p.463]. Companies may include the intangible assets on their balance sheet if such property meets the requirements from the definition and the criteria of recognition [10, IAS 38,¶ 8-17, 21-23]. Conditions from the definition of intangible assets are:

- *the possibility of identification* – assets can be separated from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with the related contract, asset or liability or arises from contractual or other legal rights;
- *the existence of control* – the entity is able to obtain future economic benefits arising from the resource and to restrict others to access such benefits. Ability to control usually arises from legal rights that are enforceable in court, although there are other ways of control.

- *the existence of future economic benefits* – the inflow of funds that occurs on the basis of the property (income), various types of savings or other benefits from the property used by the entity.
- Apart from meeting the requirements from the definition, for the intangible assets
- to be recognized, it is very important to meet the criteria for recognition. In this sense, intangible assets should be recognized only and only if:
- it is probable that the future economic benefits, attributable to property, will flow into an entity and
- if the cost value of the asset can be measured reliably.

If the property meets the set conditions and it was recognized as intangible asset, its initial measurement is done at cost value. Of course, as is the case with property, plant and equipment, as well as in the case of intangibles, acquisition costs include all costs necessary to prepare the property for the planned use. Subsequent expenditure, after recognition, generally does not satisfy the terms of the definition and for these reasons are recognized as expenses. After initial recognition, IAS 38 gives the possibility of measuring the intangible assets using cost value model or re-evaluation model under which the assets are measured at fair value determined by reference to the active market.

Possibility of recognition of intangible assets, however, is conditioned by the manner in which they were acquired. When we speak of externally acquired intangible assets, their recognition and identification of cost is relatively easy whether they are acquired through individual purchase, as part of a business combination, with the help of government grant or exchange. Certain difficulties occur in internally generated intangible assets, both with those acquired by internal activities in the company, as well as with the internally generated goodwill. Taking into account the specificity of their recognition and accounting treatment in general, we will give special attention to these categories.

a) Internally generated intangible assets

When we talk about internally generated intangible assets acquired through internal activities, IAS 38 provides specific criteria for its recognition. In addition, to assess whether such property meets the criteria for recognition, an entity classifies the generating of property in two phases:

- research phase and
- development phase.

The phases above (classification) are based on the fact that in the contemporary conditions of business operations, research and development are essential prerequisites in achieving future economic benefits in the company. In fact, today many market leaders, primarily technology companies, achieved the existing positioning primarily by implementing these activities. In order to acquire new scientific knowledge and understanding researches – that include activities such as the search for applications of research findings and other knowledge, alternatives for materials, devices, products, processes, systems, then, the formulation, design, evaluation and final selection of possible alternative – are being conducted. According to IAS 38, expenditure incurred at this stage is recognized as an expense when incurred, which implies that intangible assets arising from research cannot be recognized. The reason is that these costs arise at the stage where it is impossible to determine the future economic benefits of property. On the other hand, development is the application of research findings or other knowledge, and due to commercial use of the results of development, it is much easier to estimate the economic benefits of these activities. However, expenses incurred at this stage the company can recognize as an intangible asset if, and only if – it can prove the following:

- technical feasibility of intangible assets completion, so that they will be available for use or sale,
- its intention to complete intangible assets and to use it or sell it,
- its ability to use or sell the intangible assets,
- how will the intangible assets generate probable future economic benefits? Among other things, the entity can demonstrate the existence of markets for the product of intangible assets or intangible asset itself or, when used internally, the usability of intangible assets,
- availability of adequate technical, financial and other resources to complete development and use or sell the intangible assets, and
- their ability of reliable measurement of expenditure attributable to the intangible asset during its development [10, IAS 38, ¶57].

If possible, the cost of internally generated intangible assets will not necessarily be made of absolutely all expenditure incurred in this phase. More precisely, only directly attributable costs necessary to create, produce and prepare the asset for its functioning in a manner that is forecast by management can be capitalized. Conversely, costs related to sales, administration, general overhead costs, staff training for use of property, etc. are not components of the cost of internally generated intangible assets.

Below, the recognition of expenses related to internally generated intangible assets will be shown on the example [13, p.944-945, 1] of a hypothetical company that has a broad geographically spread branches which hampered the process of gathering working lists of employees. In order to overcome the given problems, the company management decided to create the appropriate software. To this end, the company took a loan which has provided the necessary financial resources. Expenses incurred in research and development stage of the software in the current year are presented in chronological order:

- from January 15th – 20th the assessment of alternative options and selection of the necessary technology was carried out. Costs associated with these activities amount to 100,000 dinars,
- on February 28th the final choice was made among the suggested alternatives, which caused the expense amount to 10,000
- on April 20th the manufacturing of software code was performed, with the cost of 280,000 dinars,
- until August 15th there appeared new expenses of testing the compatibility of software with the existing hardware in the company in an amount of 30,000 dinars
- on September 1st the tests of quality check were performed with the cost of 35,000 dinars
- on September 10th the protection of copyright for this program was carried out, and the taxes were paid in an amount of 7,000 dinars
- on September 15th, the organization of training of the employees to work on this program caused the expenditure in the amount of 12,000 dinars.

The accounting treatment of various expenses incurred in generating the software was conditioned by the phase in which they occurred. It is evident that IAS 38 treats all expenses incurred while researching as the expenses of the period in which they occurred. These costs amount to 110,000 dinars. Recognition of expenses incurred during the development, primarily depends on meeting the rigorous standard criteria. In this example, the company:

- proved the technical feasibility of creating intangible assets in late April when the software prototype was developed,
- in mid-August showed the intention to use the software while testing its compatibility with the available hardware,
- in August, they also proved the ability to use the internally generated software,
- obtaining the loan, the company demonstrated the availability of financial resources and
- the company proved that there is a reliable system of cost accounting on the basis of which it is able to weigh the costs that can be directly attributed to intangible assets during their development.

Starting from this example, all expenses incurred in the development stage to mid-August, are treated as period costs which are incurred and amounted to 310,000 dinars (280,000+30,000). The expenses incurred after August, when the company proved to meet all the criteria prescribed by the standard, may be capitalized in the cost of internally generated software. Of course, expenses of organizing the training of employees are not components of the cost because they are independent of the development process itself.

b) Internally generated goodwill

Internally generated goodwill is an important part of the intangible assets of a company that does not meet the stated definition of intangible assets given by IAS 38, but still generates future economic benefits for the company. Goodwill typically refers to the knowledge and satisfaction of employees, products and services quality, organizational culture, customer loyalty etc. As such, it is inseparable from the company, does not arise from contractual or legal rights and cannot be reliably estimated – it cannot be recognized as an asset and there is no possibility for its involvement in the company's balance sheet.

Therefore, at the company level there are significant and very clear limitations to the recognition of internally generated goodwill in the balance sheet. However, when the company's assets are used as the components of a business combination the rules change. Business combinations may have different forms: company purchase, take over, mergers and acquisitions, when an individual company becomes part of a larger group of companies and others. Then, the acquirer company takes over all or most of the assets of another company - subsidiaries. In this case, both companies are required to produce separate financial statements. After this the acquirer company and subsidiaries form a group and as the part of the annual report consolidated balance sheet is required. In this balance sheet, the goodwill acquired in a business combination may appear. Determining the value of goodwill in a business combination implies the following process: the acquisiting company, on the day of acquisition, distributes the costs of the business combination to the identified assets, liabilities and contingent liabilities of the acquired company that meet the recognition criteria at their fair value, excluding the non-current assets, the ones classified as held for sale under IFRS 5 – Non-current Assets Held for Sale or Discontinued Operations [2, p. 300]. In addition, the costs of business combination include the fair value of equity instruments - issued stocks or shares. Any difference in the cost of business combination and the fair value of net assets will be included in goodwill. This method of determining the value clearly indicates that goodwill acquired in a business combination makes a broader category than internally generated goodwill which is clearly indicated in Figure 1.

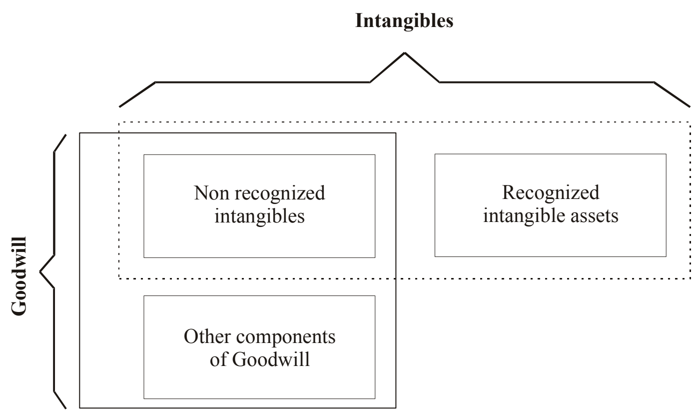

Fig. 1 Definition of intangibles vs. Goodwill
Source: [14, p. 69]

So, Figure 1 clearly shows that goodwill acquired in a business combination, in addition to internally generated goodwill can contain the following components:

1. the difference between the fair value of acquired net assets and book value attributable either to the accounting error of the company that was taken over, or to the conservative tendency of accounting standards in the recognition of internally generated intangible assets;
2. fair value of intangible assets not recognized in the balance sheet of the acquired companies;
3. shareable synergies, that is, the present value of economic profit, which the acquired company is able to achieve thanks to the entry into the sphere of control of the company acquirer,
4. unshareable synergy, that is, the present value of economic profit generated by the acquirer company as a result of business combination;
5. understatement or overstatement of prices paid for business combination, depending on the method of payment or negotiation phase [15, p.16].

In accordance with the generally accepted accounting practice, only the goodwill acquired in a business combination can be recognized, but only after taking over the company and at the time of preparation of the consolidated balance sheet of the group. Goodwill acquired in a business combination is regulated by the IFRS 3 - Business combinations and it is a consequence of company's ability to generate above-average future earnings, or as a set of intangible assets controlled by the acquired company [4, p.158].

2.2 The limitations of financial reporting on intangible assets of the company

Intangible assets are characterized by a specific way of recognition and measurement, which greatly complicates the development of adequate, understandable and comprehensive accounting standards. IAS 38 is a significant step forward in establishing a single set of rules and principles of accounting for intangible assets. Though it resolves most of concerns related to the recognition of company's intangible assets in financial statements, there are certain limitations that this standard has not yet been able to overcome. Namely, based on the precautionary principle, this standard provides a very rigorous criteria for the recognition of certain intangible assets, primarily internally generated (research and development costs, talent and knowledge of employees, trademark, etc.). This is because the careful weighing of the company's assets is protecting the interests of users of accounting information, and above all, the interests of creditors, owners, employees and the state [8, p. 20]. The above reason, the impossibility of establishing a connection between the cost of intangible assets and future economic benefits, in some cases may be linked to property, plants and equipment. However, IAS 38 clearly excludes internally generated intangible assets rather than to accept their recognition and reliable testing. In addition, there are still no unified elements of internally generated intangible assets, or the possibility of standardization of intangible performance and their inclusion in the official financial statements.

In addition to limitations in the recognition of intangible assets and the corresponding weakness of existing practices they also occur in terms of its subsequent measurement. As noted above, IAS 38 in addition to the cost of the model, gives the possibility of its measurement and the revaluation model, i.e., at fair value as determined by reference to the active market. The problem that arises here is reflected in the fact that the existence of active and competitive market is not common for intangible assets, and although transactions can occur, they are very rare. For these reasons, the price paid for a property may not provide sufficient evidence of fair value of another asset, and very often, such costs are not available to the public. To be more specific, the question is whether the fair value is truly "fair"?

The mentioned limitations and weaknesses of current practice of financial reporting on intangible assets will inevitably lead to the conclusion that the companies will continue to face this problem, not only in measurement and reporting, but consequently, with the burden of managing this category as well. Apropos, incomplete information about intangible assets can contribute:

- to hostile company takeover, but by the management which uses the information the owners don't possess, so called - information asymmetry,
- the increase of risk of inadequate valuation of the company as a whole, which requires a greater aversion of investors and creditors in terms of investment and lending to a specific company,
- the increase of the cost of capital and the like [12, p.47].

In addition to the problems that companies themselves have to face, far-reaching negative consequences for the stakeholders of the company may arise. Namely, the unlikeliness that their information requirements would be satisfied may cause making wrong business decisions. Simply put, ignorance and misunderstanding of the company's key resource, of the way it creates value and provides growth and development may lead to wrong perception of the company by the stakeholders. In addition, this can cause a lack of initiative to invest in that company, lack of confidence in its legitimacy, expressing doubts about its capacity, competitiveness, achieved performance and the like.

3. DIRECTIONS FOR IMPROVEMENT OF FINANCIAL REPORTING ON INTANGIBLE ASSETS OF THE COMPANY

The information that the existing practice of financial reporting on intangible assets provides are useful but, at the same time, insufficient to determine the real value of the company. For these reasons, the issue of providing relevant information about intangible assets is a significant challenge for today's accountants. To be specific, the improvement of practice of reporting on intangible assets was the subject of research of many theorists and practitioners. Already in October 1999, one year after the adoption of IAS 38, a former chairman of the EU Commission for the Securities, Levitt sent a request to the Director of Faculty of Management at Yale University, Mr. Garten, to form a Working Group composed of academics, accountants, standard bearer, the business community and others, in order to make the existing conceptual framework more efficient in conditions of the changing economic environment. In June 2001, the working group presented their final report which included two key recommendations for improvement:

- *Create a new conceptual for reporting on intangible assets*. The framework for reporting refers to the voluntary preparation of reports on intangible assets which completes the existing set of financial reports, thereby ensuring an adequate communication of the company with the external stakeholders on the issue of intangible assets and business performance;
- *Create an environment that will encourage the reporting improvement.* The Working Group recommends the protection of companies which are willing to perform additional disclosures, primarily through new legislation. Also, the companies should provide disclosures of more sophisticated and less certain (less secure) information, as long as they point out that this information are uncertain and while they provide the explicit explanations on how these information were constructed [16].

Furthermore, Burgman and Roos, in order to assess the real value of the company, proposed a simple framework for reporting on company's value as shown in Figure 2.

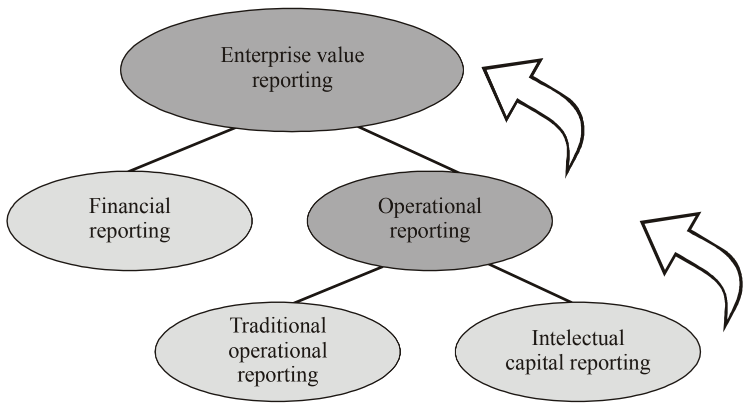

Fig. 2 Enterprise value reporting framework
Source: [5, p. 29]

The previous figure shows that the insight into the real value of the company can be achieved not only through financial statements, but also by using a special report – a traditional report on business operations and a report on intangible assets (intellectual capital). Traditional report on business operations provides assistance to external users in understanding the financial position and gross earning power of a company. The report on business operations does not have a strict form or content, it is assumed that, apart from general information about the company, it should also contain a section on the interpretation of the past and the present, in order to determine the financial position and performance of company's business operations, as well as the part which will provide important information to the management needed to evaluate the main uncertainties and probable development of the company in the future. The report on business operations should include the overview of:

- the main factors and influences that determine the performance, including changes in the environment in which the company operates, the company's response to these changes and their effect, as well as the investment policy of the company, which aims to maintain and improve the results, including its dividend policy;
- sources of company's financing, policies related to financial debt and risk management policies; and
- company's powers and resources the value of which was not shown in the balance sheet, which was made in accordance with International Accounting Standards [7, p.123]

On the other hand, when it comes to report on intangible assets or intellectual capital, it is needless to speak about its contribution to company stakeholders, in terms of valuation of the company with a high degree of reliability. Specifically, the report provides the information on the most important holder of shares - the intellectual capital that is still not included in official financial reports.

Apropos, the Scandinavian companies, which are emerging as innovators on the field of reporting on intellectual capital, were among the first that realized the importance of this report. To be more accurate, the Swedish insurance company Skandia was the first company that published this report, meant for the external users, along with their financial statements, called *Visualising Intellectual Capital in Skandia.* In doing so, the created reporting system was designed to include both financial and non-financial information.

Also, the Intangible Assets Monitor was developed for the Swedish consulting company Celemi and it is a model for measuring intangible assets and their presenting through a number of relevant indicators. The models, coherent and clear, are the subject of benchmarking of many other companies that recognize the importance of compiling this report. However, their heterogeneity and the impossibility of comparing and testing of indicators of intangible assets resulted in a need of creating a conceptual framework for the preparation of these reports which will be applicable to companies of different sizes and from different sectors. Namely, already in early 2000 the first projects focused on the formulation of rules and recommendations for the preparation of reports on the intangible assets of companies were launched. Today, we can talk about a number of projects implemented in European countries (Table 2).

Table 2 Some projects realized in Europe

Institution/ county	Reference	Year of the latest version
European Union	Intellectual Capital Statements – Made in Europe, European ICS Guideline, DG Research (EC 2008a)	2008
European Union	RICARDIS report, DG Research (EC 2006)	2006
European Union	Guidelines for Managing and Reporting on Intangibles, MERITUM Project (MERITUM 2002)	2002
Germany	Intellectual Capital Statements –Made in Germany, Federal Ministry of Economics and Labour (BMWA 2004)	2004
Denmark	Intellectual Capital Statements –The new Guideline, Ministry of Science, Technology and Innovation (DMSTI 2003)	2003

Source: [11, p. 112]

Within these projects, directions, recommendations, rules and principles for adequate evaluation and reporting on intangible assets are given to users. Certainly, among the given recommendations a number of similarities are evident, but also some differences. However, precisely these differences have important implications for practitioners (in terms of selecting a suitable alternative, considering the possibility of simultaneous use, etc.), and the theorists (implementation of benchmarking, achieving consensus, creating a unified conceptual framework ...), but also for the standards bearers (creating and promoting greater standardization of reporting practices and on both national and international level).

Today we can say that a large number of companies across Europe compiled a report on intangible assets or intellectual capital on voluntary basis. The experiences of these companies suggest that this report provides information that reduces the gap between market and book value of companies. Also, based on the information of mentioned report, the information asymmetry between management, owners and investors was reduced, and the uncertainty and insecurity of investors and creditors were reduced as well, resulting in greater access to new sources of financing companies and significantly improved communication with investors, banks and capital market. Better external reputation was established due to the increased the confidence of all stakeholders in the reliability of business management. Specifically, the uncertainty and risks of cooperation with such companies are significantly decreased, because what was usually invisible is now made visible [6, p.219].

CONCLUSIONS

Satisfying the users' need for information, in terms of giving them insights into the economic realities of the company, is the primary objective of financial reporting. For these reasons, any part of the assets, liabilities, event or transaction which could affect the current financial position and future company performance should be presented in the financial statements. Therefore the financial reporting meets the requirements of economic reality of the company if the principles and rules of recognition, measurement and disclosure of elements of financial statements are adjusted to significant changes of business environment and economic activities of the company.

In the last two decades, the financial reporting has faced a strong need to reassess the existing and to create new rules for the recognition and valuation of intangible assets. Significant progress, in terms of removing restrictions of traditional accounting treatment of intangible assets, was accomplished in 1998 with the adoption of IAS 38. This standard prescribes the treatment of intangible assets of a company, that is, determines the criteria for their recognition, defines the way of measurement of their book value, and requires certain disclosures about intangible assets. However, setting up too rigorous criteria for recognition of, specifically, internally generated intangible assets, leads to the conclusion that their coverage will remain outside the scope of IAS 38. Namely, it is unlikely that these assets will find their place in financial reports. For these reasons exactly, today the efforts are being made for addition of the set of financial statements on intangible assets (intellectual capital) as voluntary reports, rather than as a radical reform of the existing financial reporting system.

Accordingly, it can be noted that a number of projects result in recommendations to practitioners for evaluating and reporting on intangible assets. The experiences of many companies across Europe suggest a much wider range of these reports, which encourages the voluntary preparation of these reports, and also sets the basis for further improvement of existing practices.

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FINANSIJSKO IZVEŠTAVANJE O NEMATERIJALNOJ IMOVINI – DOMETI I OGRANIČENJA

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U savremenim uslovima poslovanja preduzeća postoji potreba za zadovoljenje različitih informacionih zahteva široke grupe korisnika. Finansijski izveštaji pružaju primarno informacije o samom preduzeću – njegovoj sposobnosti da stvara dobitak, mogućnostima kreiranja novčanih tokova i promena na kapitalu i informacije o materijalnoj i finansijskoj imovini i obavezama. Nedostatak relevantnih informacija o nematerijalnoj imovini (intelektualnom kapitalu i sl.) u finansijskim izveštajima preduzeća uskraćuje mogućnost eksternim korisnicima sagledavanje realne vrednosti preduzeća kao i donošenje adekvatnih poslovnih odluka. Suviše rigorozni kriterijumi priznavanja i vrednovanja nematerijalne imovine uslovljavaju da je knjigovodstvena vrednosti mnogih, znanjem i tehnologijom intenzivnim preduzeća višestruko manja od njihove tržišne vrednosti. U radu, autori razmatraju domete postojećeg modela finanasijskog izveštavanja u obezbeđivanju relevantnih informacija o nematerijalnoj imovini preduzeća, ali i ograničenja sa kojima je on suočen. Takođe, ukazuje se na moguće pravce prevazilaženja postojećih ograničenja a sve u cilju obezbeđivanja relevantnih informacija o nematerijalnoj imovini preduzeća.

Ključne reči: *nematerijalna imovina, finansijsko izveštavanje, relevantne informacije, Međunarodni računovodstveni standardi*