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THE ACCOUNTING AND VALUATION OF INTANGIBLE ASSETS THROUGH THE ANALYSIS OF ITALIAN AND INTERNATIONAL ACCOUNTING STANDARDS

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INTRODUCTION

The thesis seeks to analyze and get through all the intangible assets available to a company from the perspective of the evaluation and accounting, focusing on the current economic situation in which listed companies are operating.

The first chapter begins with some remarks on the increasing importance intangibles have achieved through the decades, and how these are now crucial for a company to the achievement of a competitive advantage. We no longer live in a world where physical assets are more valuable than intangibles. High levels of business performance are more dependent upon intangible characteristics, which can provide barriers to entry, differentiate products, provide a more stable and profitable earnings stream, they can have a long life, and may provide also international recognition.

The chapter continues giving a general definition of intangible asset, coming up with four essential characteristics: lack of visibility, identifiability, control, and future economic benefits. Hence, an intangible is an identifiable asset of an entity with no physical substance, which is controlled by the company and from which a flow of future economic benefits is expected. Moving forward, the chapter also reviews a general classification of such resources, dividing them into five main categories, namely marketing-related (i.e. trademarks), customer-related (i.e. customer lists), artistic-related (i.e. copyrights), contract-based (i.e. franchise agreements), and finally technology-based (i.e. computer software).

At last, the chapter looks at the accounting framework. Accountants have long tried to solve the problem about how to treat intangible property in financial statements. In the past the deficiencies in these fields could be tolerated because of the limited scope of these assets, but now in the post-industrial structure, typical of the most advanced economic systems, regulations on intangible property are necessary. In Italy the accounting standards concerning intangible property are set out partly in the Civil Code and partly in the OIC No. 24, issued by the *Organismo Italiano di Contabilità;* while the international practice is represented by the IAS 38, issued by the International Accounting Standards Board.

The second chapter aims to the description of the components of both the national and international practice on intangible assets.

For what concerns the national standards, the paper analyzes first the laws of the Civil Code. The code initially gives a list of intangibles aimed at defining them, then it stipulates that the assets must be amortized over their expected useful life, and at last it dictates that at the end of every financial period such assets must be written-off, if the value of the asset on account has decreased.

Moreover, the Civil Code is integrated by the document No. 24, which divides intangibles in five main categories: multi-annual costs, intangible property, goodwill, assets under construction, and advances to suppliers. Intangible assets are identified as costs that do not exhaust their utility in a single period, and can be either internally generated or externally acquired. If internally generated, intangibles must be recognized at cost of production; while if externally acquired, at purchase price. Furthermore, according to the document, at the end of each year the assets must be amortized on a systematic basis over their expected useful life. However, amortization is not the only process subjected to intangibles: at the end of every financial period, indeed, if the net book value of the asset has been subject to a significant decrease, it is necessary to write down the lower value.

Finally, the OIC describes the single categories and lays down specific requirements for each division: formation expenses, R&D and advertising costs, patents and intellectual property rights, concessions, licenses, trademarks, know-how, goodwill, and assets under construction. For each class, it also determines the duration of the amortization and the elements to be written in the notes to the financial statements.

The second part of the second chapter outlines the international practice, the IAS 38. First of all, the standard sets out the necessary criteria that an intangible asset must have: identifiability, control, and future economic benefits. Then, provides for initial recognition requirements, depending on how it has become part of the assets of the company. The acquisition hypothesis for intangibles are: separate acquisition, acquisition as a part of business combination, acquisition by a way of a government grant, exchange of assets, internally generated. In general, according to IAS 38 an intangible asset is measured initially at cost. However, the fifth case contains further requirements. Indeed, for internally generated assets the standard first distinguishes between the research phase and the development phase. Then states that no intangible asset arising from research shall be recognized; while, intangible assets arising from development are recognized if the company can demonstrate certain information related to the asset. Also, internally generated goodwill is never recognized as an intangible asset.

Furthermore, the standards proceeds providing for two models for the measurement after recognition, namely the cost model and the revaluation model. The cost model is the one previously described by the Italian standards, while the second one is given only by the IAS 38. According to the revaluation model, an intangible asset shall be carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated amortization or impairment loss.

Finally, the chapter ends with a comparison of the national standards and the international standards, in which it appears that:

- the definition of intangible asset given by the Italian accounting standard is wider and hence enables to consider as intangibles a broader set of assets, while in the IAS, the opportunity to recognize certain expenses as intangibles is limited;
- in the international regulation it is possible to measure the intangibles either with the cost model or with the revaluation model, while the OIC provides just for the cost model;
- according to the national practice a duration for the amortization of the assets is always expected;
- the useful life of intangible assets, according to the IAS 38, can be finite or indefinite. In the case of intangible assets with indefinite useful life no amortization shall be applied, but the impairment test shall me made annually.

The final chapter has the objective to practically look what has been said theoretically in the previous chapters. An empirical research on the consolidated financial statements of June 2017, of three important Italian listed companies operating in three different economic sectors. The consumer's goods sector with Geox, the automotive sector with Ferrari, and the media sector with the editorial group GEDI. Different economic sectors have been chosen in order to look at a wider range of types of intangibles. Every paragraph starts with a short presentation of the analyzed company, and then proceeds with the illustration and explanation of the financial statements in which the intangibles are recorded.

CHAPTER 1

THE INCREASING IMPORTANCE OF INTANGIBLES

1.1 Intangible assets and competitive advantage

The economic reality of businesses facing us is recognizing to intangible assets an increasingly predominant importance, especially for the acquisition, by companies, of a competitive advantage[1]. We live in a world where competition is after everyone, where businesses are becoming more and more competitor-oriented, looking for their competitive weaknesses and strengths as well as a plan of action to either exploit or defend against them. In a scenario like this, the only non-replicable, unique, proprietary, competitive advantage a business has are intangible assets. In order to appropriately fit the features of the corporate setting and the resources held by the company, it is necessary to undergo efficient processes of acquisition, creation, storage and usage of intangible assets[2]. Something is of competitive advantage if it is openly available, capable of being leveraged easily across business and not easily substitutable, and intangibles meet all three requirements. Hence, such assets represent the main source for a company to achieve a sustainable competitive advantage. For example, let us look at the case in which companies may drop or suspend advertisement expenditures, or limit significantly the amount of R&D investments: in the long run these companies will surely suffer a loss in income-earning capacities. This is because today's market forces require businesses to be able to meet customer's needs, to distinguish themselves in the mind of customers, and to anticipate and adapt to economic change. Goals that can be achieved only through a significant investment in intangible assets.

Intangibles provide barriers to entry, they differentiate products (and commodities), they provide a more stable and profitable earnings stream, they can have a long life (as brands and trademarks), and they may provide international recognition. This does not imply, of course, that tangible property has no importance in the success of a business, it is essential to the firm's survival, rather it does not seem itself sufficient to make the company override all other competitors[3]. Richard Bookstaber gives us an illustrative picture about the importance of intangibles compared to tangibles: "The reach of

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[1] C. Chiacchierini, 1995, Valore dei beni immateriali e vantaggio competitivo, CEDAM, Padova, p.1

[2] H. Itami, 1988, Le risorse invisibili, Isedi, Torino, p.36

[3] D. Andrews, A. Serres, 2012, Intangible Assets, Resource Allocation and Growth: a framework for analysis, OECD Economic Department Working Papers, No 989, Paris

intangibles is extensive; as Charles Leadbeater has said ‘modern corn is 80% science and 20% corn,’ alluding to the extensive lab development behind hybrid corn. By some estimates, intangible assets now make up 80% of the value of the S&P 500[4]. They are what provide companies with their franchise value, sometimes bordering on monopolistic market position. Intangible assets are the product of imaginative people who walk out the door every night; others are formulas locked in a vault. And in many cases, once they have been created and the intellectual property has been claimed, they cannot be reproduced at any price”[5].

Consider the case of brands, a recent research made by PricewaterhouseCoopers[6] supports the view that a significant portion of a company’s value, potentially over 60%, relates to intangible assets. And that for many of these companies, the brand constitutes the majority of this percentage. Strong brands influence customers’ decision-making processes, as well as ensuring that premium prices can be charged. This is particularly true in many consumer businesses. They represent a guarantee of quality and sometimes, as the case of luxury brands, consumers even derive social status from the brand. One clear example of great brand is Apple. The Apple brand has been recognized by Forbes as the world's most valuable, exceeding the direct rivals Google and Microsoft. Apple’s impressive branding strategy has always focused on emotion. This emotional brand is not just intimate with its customers, it is loved; and loyal customers would never think of switching to another brand. Considering the emotions people feel while using Apple products, the brand draws on the lifestyle, imagination, passion, empowerment and aspirations of Apple users. A branding strategy to grow beyond the core product line. Clearly, this doesn’t translate into a top market share for Apple, but it is a significant advantage that has kept it alive when other have fallen by the wayside.

Intangible assets, therefore, provide potential competitive advantage, but as assets they clearly demand specialist management and communication skills. Management’s ability to deliver its strategy is highly reliant on its customer relationships, brands and performance of key employees –

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[4] The American stock market index based on the market capitalizations of five hundred large companies having common stock listed on the NYSE or NASDAQ. Components and weightings of the index are determined by S&P Dow Jones Indices.

[5] R. Bookstaber, 2007, A Demon of Our Own Design: Markets, Hedge Funds, and the Perils of Financial Innovation, John Wiley & sons, p.138

[6] PwC is one of the world’s largest professional services networks, with over 223,000 people in 157 countries, Offering management, strategic, legal, and fiscal consulting and auditing services. See the reference site www.pwc.com.

all of which are typical intangible assets for accounting purposes. The relevance of these factors is clearly vital to a company's profitability and to the sustainability of its future performance[7].
In conclusion, the intangible property of business activities has grown to such an extent that it represents the "real value" of a number of companies all over the world. It is often identified with the source of the company's competitive advantage over its direct competitors and, as a result, it is the most qualified prerequisite for explaining the company's current and future performance[8].

1.2. General characteristics and classification

Scholars, standard setting boards and researchers have been defining intangible assets in many various ways according to the way they understand the nature of these assets.
According to Valuation of Intellectual Property and Intangible assets by Gordon V. Smith and Russell L. Parr, intangible assets are defined as "all the elements of a business enterprise that exist after monetary and tangible assets. They are the elements, after working capital and fixed assets, that make the business work and contribute to the earning power of the enterprise. Their existence is dependent on the presence, or expectation, of earnings. They appear last in the development of a business and disappear first in its demise"[9]. It seems conceptually more compelling to define intangible assets of a company as the set of all those elements that remain once material assets have been ascertained. They represent a key component of the company, contributing significantly to the development of the business activity and to its effective capacity and profit potential.
In addition to this general definition and despite the different classes in which such assets are subdivided, there are some fundamental characteristics that are shared by all:

- lack of visibility;
- identifiability;
- control;
- future economic benefits[10].

First, by definition an intangible asset is one with no physical substance. Second, it must be identifiable, it can be either separable or divided from the entity, licensed, rented or exchanged. Third,

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[7] N. Rea, A. Davis, Intangible assets: what are they worth and how should that value be communicated?, PricewaterhouseCoopers, London

[8] A. Renoli, 1992, La valutazione dei beni immateriali: metodi e soluzioni, EGEA, Milano

[9] G. V. Smith, R. L. Parr, 1989, Valuation of Intellectual Property and Intangible assets, Second Edition, John Wiley & Sons, U.S.A, p.78

[10] D. Andrews, A. Serres, 2012, Intangible Assets, Resource Allocation and Growth: a framework for analysis, OECD Economic Department Working Papers, No 989, Paris

the company must have the power to obtain benefits from the asset. Finally, there must be a reasonable expectation that these gains will continue in the future (this is a common characteristic possessed by all assets).

Moreover, it is proper to make a distinction between the different classes of intangibles. The classification of Robert F. Reilly and Robert P. Schweihs[11] is currently the widest, composed of ten groups, namely:

1. intangible assets associated with marketing (trademarks, trade names, brand names, logos, colors);
2. intangible assets related to technology (patents on technological progress and on business methods, technical documentation, laboratory logs, technical know-how);
3. intangible assets related to creative activity (literature works and copyrights on them, musical works, publishing rights, photographs, maps, prints);
4. intangible assets related to data processing (proprietary software, copyrights on software, computerized databases, integrated circuits, microchips and their templates);
5. intangible assets related to engineering activities (industrial designs, patents on products, trade secrets, blueprints and diagrams, corporate records, projects, technical know-how);
6. intangible assets related to customers (customer lists, customer contracts, customer relationships, open purchase orders);
7. intangible assets related to contracts (lucrative contracts with suppliers, licensing agreements, franchise agreements, subscription rights, future contracts);
8. intangible assets related to human capital (skilled labor force and wages, contracts, agreements with unions, employment contracts);
9. intangible assets associated with the land (lease rights, rights for subsoil use, easements, rights for airspace, rights for water space);
10. intangible assets related to "goodwill" (goodwill of organization, goodwill of professional practice, personal professional reputation, the total value of the business as a going concern).

However, it may be more efficient to think of a shorter and more summarized classification, composed of five groups of intangibles. Starting with marketing-related intangible assets (as trademarks and brand names), passing through customer-related intangible assets (as customer lists and customer relationships), artistic-related intangible assets (as literature or musical works and

[11] R. F. Reilly, R. P. Scweihs, 1999, Valuing Intangible Assets, McGraw-Hill, U.S.A

copyrights), contract-based intangible assets (as service contracts, lease agreements, and franchise agreements), and finishing with technology-based intangible assets (as computer software and trade secrets)[12]. One fashion concept much used and discussed when analyzing intangibles is the concept of "intellectual capital". Some authors use this concept as synonymous with intangibles, others have concluded that a well-established generally accepted definition of intellectual capital does not exist. However, it seems like most researchers now classify intellectual capital into three categories: one related to employees, that is most often called human capital; a second related to internal processes and structures, most often called structural capital or organizational capital; and a third related to customers, called external structure, relational capital or customer capital.

1.3. Accounting framework

Accountants have long tried to solve the problem about how to treat intangible property in financial statements. When managers of a business make an expenditure, for example the purchase of a machine, the path is clear: the cost is capitalized as an asset on the balance sheet and is depreciated over some period of useful life. If, however, it was a payment for research, for a training program, or for advertising materials, the answer may not be so clear[13]. The theme of intangible resources raises difficult issues in multiple aspects: at accounting level, at valuation and, more recently, at the definitive stage.

Early efforts to recognize the existence of intangible assets focused on the concept of goodwill, used in the literature to encompass all of the intangible assets of a company. In 'Accounting research study No. 10', published by the American Institute of Certified Public Accountants, the discussion is about how the nature of goodwill has changed. Specifically, in the simpler business organizations of an earlier period, goodwill was often of a personal nature, attaching in large measure to the particular personality, friendless, and skill of the proprietor or partners of the business. As the industrial system developed and business increased in complexity, the various advantages possessed by a business and which contributed to its profitability became less personal in nature. The point is that the increase in business complexity has created more intangible assets[14]. Hence, if in the past the deficiencies in these fields could be tolerated because of the limited scope of these entities, in the post-industrial

[12] The International Valuation Standards Council, 2016, IVS 210: INTANGIBLE ASSETS, IVSC, London

[13] G. V. Smith, R. L. Parr, 1989, Valuation of Intellectual Property and Intangible assets, Second Edition, John Wiley & sons, U.S.A, p. 47

[14] G. R. Catlett, 1968, Accounting for goodwill (Accounting Research Study No. 10), American Insitute of Certified public Accountants, Stamford, p.10

structure, typical of the most advanced economic systems, regulations on intangible property are necessary.

Regulation on intangibles around the world looks quite different with the most conservative view in the USA, that does not allow capitalization (with the exception of some software investments), and the most flexible and permitting view in Australia, even accepting capitalizing internally generated intangible assets. However, the aim of this paper is to analyze the accounting and valuation of intangibles in Italy, with reference to the national and the international accounting standards.

The first source of law is represented by the Civil Code, which is integrated by the Italian GAAP, laid down in the OIC 24, issued by the *Organismo Italiano di Contabilità*[15]; while the second one is provided by the IAS 38, issued by the IASB. Corporations are obliged to follow the rules led by the Civil Code. Publicly traded corporations, in addition to the rules of the Civil Code, have to follow the standards laid down in the OIC 24. Hence, in the following chapter we will analyze the components of these standards, and then proceed to seek the similarities and differences between them.

<u>CHAPTER 2</u>

ACCOUNTING AND EVALUATING FOR INTANGIBLE ASSETS

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[15] The *Organismo Italiano di Contabilità* is a national standard setter, established in 2001 and legally recognized as a foundation.

2.1. Intangibles under Italian accounting standards

As said above, the national framework of intangible assets in Italy is represented, first of all, by the Civil Code[16].

Article 2424, on the content of the balance sheet, identifies intangible assets as follows:

1. formation expenses;
2. R&D and advertising costs;
3. patent rights and intellectual property rights;
4. concessions, licenses, trademarks, and similar rights;
5. goodwill;
6. assets under construction and advances;
7. other.

However, the Code does not add any comment about the meaning of such items. Only with respect to the first two, Article 2427 requires to state, in the notes to the financial statements, the reasons behind the directors' choice of capitalizing them. In other words, the reasons that led the directors to consider them multi annual costs, and not costs to be recognized in profit or loss.

According to Article 2425, on the content of the income statement, intangible assets with finite useful life, have to be amortized or depreciated on a systematic basis, in every period, over their useful life[17]. The total amount of the amortization has to be directly deducted from the original value of the asset, to which the amortizations are related, and it has to be disclosed in the notes to the financial statement[18]. Finally, according to Article 2426, on evaluation criteria, it follows that:

- assets are carried at their purchase price or cost of production. The purchase price includes also ancillary costs. The cost of production comprises all of the charges attributable to the asset. Also, costs incurred for the realization of the asset can be added (using the same criteria);
- costs associated to intangible assets, with finite useful life, shall be depreciated or amortized on a systematic basis, in every period over their expected useful life;

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[16] The Italian Civil Code, approved by Royal Decree No. 262 of March 16 1942, and amended up to Decree No. 291 of December 7 2016.

[17] The calculated amortizations shall be registered in the Income Statement and are to be classified under heading B.10.a "*amortization of intangible assets*".

[18] Article 2427, on the content of the notes to the financial statement.

- assets which, at the end of the reporting period, prove to be less valuable than what determined according to the two points above, has to be stated at such lower value: this can not be kept in future reports if the reasons of the adjustment don't exist anymore.

2.1.a OIC 24

The standard issued by the *Organismo Italiano di Contabilità,* No. 24, shall be in addition to the rules of the Civil Code dealing with intangible assets[19]. Hence, it recalls in many ways what said by the articles mentioned above, and is also partly based on the IAS 38.

First of all, the document defines certain standards, required for an asset to be recognized as intangible:

- lack of tangibility;
- incurring costs for the acquisition or to be generated internally;
- capable of generating higher revenues and lower costs in the future.

Furthermore, by incorporating the provisions of the Code to the document 24, it is possible to split the type of intangibles, defined in Article 2424[20], into five main categories:

1. Multi-annual costs (formation expenses, R&D and advertising costs);
2. Intangible property (patent rights, intellectual property rights, concessions, licenses, trademarks and similar rights);
3. Goodwill;
4. Assets under construction; and
5. Advances.

Hence, intangible assets are identified as costs that do not exhaust their utility in a single period, which are capable of bringing future economic benefits. They can either be:

- Internally generated: all costs attributable to the creation of the assets shall be capitalized. The intangible shall be recognized in the assets, and the revenue in the income statement under the heading "*Increases in assets for internal works*".

[19] In Italian: *immobilizzazioni immateriali*.

[20] See p. 7.

BALANCE SHEET	
Patent right	

INCOME STATEMENT	
	Increases in assets for internal works

- Externally acquired at disposal: in this case, both the price paid for the intangible asset and all ancillary costs shall be taken in consideration.

BALANCE SHEET	
	Debt to suppliers

INCOME STATEMENT	
Formation expenses	

The document No. 24 does not consider freely acquired intangible assets.

Hence, when the asset becomes part of the corporation the first thing to do is to recognize it on the financial statements as mentioned above.

At the end of each financial year, the asset must be amortized, according to its residual life: the process by which the original cost of the asset is ratably charged as expenses over its useful life. Such process begins in the period in which the asset is ready for use, and there are three elements to be determined:

1. Depreciable value: given by the difference between the original cost and the residual value at the end of the useful life of the asset.
2. Useful life: an estimate of the number of years an asset is likely to remain in service. It is recalled that for multi-annual costs and goodwill, the law requires a maximum duration of five years. Just for goodwill, there is the possibility to set a higher duration, with the permission of the board of auditors and the reasons of the increase written in the notes to the financial statements.
3. Amortization method: the standard identifies as the most simple and efficient the straight-line basis method. In alternative, it suggests the decreasing balance method.

Amortizations shall be registered in the Income Statement under heading B10, while accumulated amortizations are to be recognized on the asset side in the Balance Sheet.

BALANCE SHEET	
Accumulated amortization	

INCOME STATEMENT	
Amortization expenses	

Amortization is not the only process subjected to intangibles. At the end of the reporting period, indeed, if the net book value[21] of the asset has been subject to a significant decrease, it is necessary to write down the lower value[22]. In detail, the net book value is compared to the recoverable amount, which is given by the highest between the value in use[23] and the net sale price of the asset. If the value in use is greater than the recoverable amount, the carrying amount must be written down, as an expense in the Income Statement[24].

BALANCE SHEET	
	Goodwill

INCOME STATEMENT	
Impairment loss	

However, as mentioned above, if at some point the reasons for the impairment do not exist anymore, an adjustment must be made: to re-establish the situation that existed prior to the impairment, and recognize it as a revenue, in the Income Statement, under heading "*Impairment recovery*".

[21] The net book value is given by the difference between the initial cost of the asset and the accumulated amortization.

[22] Obviously, this can not be kept in the reports if the reasons of such impairment do not exist anymore.

[23] The present value of the estimates of expected future cash flows deriving from the continuous use of an asset and its availability at the end of its useful life.

[24] Under heading B10.

BALANCE SHEET	
Goodwill	

INCOME STATEMENT	
	Impairment recovery

As said before, the Civil Code lists the components of the class of intangible assets without adding any comment or description[25]. With respect to this lack, the OIC 24 explains and clarifies the content and rules concerning each and every type of the intangibles listed.

Formation expenses consist of pre-operating expenses, as costs for the articles of association, initial taxes, personnel training; and of expenses related to subsequent enlargements, as costs incurred to increase the Share Capital. These can be entered in the budget only if their expected utility is continuously verified, and only if the capitalized amount doesn't exceed the expected value of the future utility. If such conditions aren't met, the assets must be subjected to an impairment. These costs can be amortized for a period of not more than five years.

Research and development costs can be capitalized only if they will generate future economic benefits, if they are measurable, and if they refer to the realization of a given product or process. Moreover, the document draws a distinction between basic research and applied research. The former corresponds to theoretical studies and surveys which have been carried out continuously, and for this reason have to be recognized as operating costs; the latter, instead, is carried out for the achievement of a specific project. Hence, if there is proof that there will be future economic benefits from the asset the costs can be capitalized. Finally, the standard defines 'development' as the practical application of the results given by the applied research and, therefore, the related costs shall be capitalized too. The amortization of such assets begins in the period in which the asset is ready for use and has a maximum duration of five years.

Advertising costs are capitalized when they are of an extraordinary and non-recurrent nature, and when they are incurred for the realization of an initiative, for example the launch of a new product or of new business activities (thus, ordinary advertising costs are excluded). Such costs can be amortized for a period of not more than five years.

Patents are classified as assets only if the company has the exclusive property of the right, and when the costs can be recovered by the achievement of future economic benefits. At the end of each

[25] See p. 7

financial period, it is necessary to assess if the initial conditions are yet fulfilled. If not the asset shall be impaired. Usually the amortization has a duration equal to that of the useful life of the asset, hence the law does not impose any time limit.

Intellectual property rights are mainly related to copyrights, namely a legal right that grants the creator of an original work exclusive rights for its use and distribution. The asset can be recorded if the company has exclusive property of the right, and when costs incurred can be recovered by the achievement of future economic benefits. Moreover, as for patents, the amortization has a duration equal to the useful life of the asset, without legal limits.

Concessions are measures taken by the Government, with which it grants to other parties its rights on public goods, as the right to exploit a state ground or the right to carry out specific activities. The value entered in the balance sheet must be equal to the amount paid for the concession.

Licenses are permissions that allow the exercise of regulated activities. The same rules concerning patent rights and concessions apply.

Trademarks are distinguishing signs of a company, which can be capitalized whether internally generated[26] or acquired for valuable consideration[27]. For what concerns the amortization duration, it is considered appropriate to take into account the marketing period of the products effected by the trademark, otherwise the standard sets a twenty-year limit.

Know-how is defined as the set of knowledge, trade secrets, powers, and skills of a company. It can be recorded as an intangible when it is acquired from third parties (provided that there will be future utility from it) and when it is internally generated, as long as it is treated as legal property.

Goodwill is the ability of the company to generate extraordinary future economic benefits. If the purchase price of the company exceeds its carrying amount, then we are talking about goodwill. Hence, one's goodwill is never recorded. It is capitalized only if acquired for valuable consideration, and to the extent of the cost paid for it. The duration of the amortization can be of no more than five years. However, if more economic benefits are expected from the asset, there is the possibility of a greater duration, up to twenty years. Finally, at the end of each period if the utility derived from the asset does not persist the asset shall be impaired.

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[26] When the trademark has been internally generated, just the costs directly incurred are to be capitalized, while ancillary expenses are carried as R&D or advertising costs.

[27] A freely acquired trademark is never capitalized.

Assets under construction include assets produced internally that, at the end of the financial period, have not yet been completed and hence cannot be amortized[28]. The only thing to do is to accumulate and capitalize the costs as incurred.

Advances refer to payments on account made to suppliers for the acquisition of intangible assets. The transaction is open until the invoice is received, when the difference is paid off.

At last, the category "*Others*" includes costs and expenses for the improvement of third parties' goods. In order to be recorded they must prove to generate economic benefits for one or more future periods. The most important components of this category are:

- Expenses for improvements on third parties' goods, which can be recorded only if the good concerned is not part of the company's assets. The costs must cover the leasing, usufruct or enjoyment of the good.
- Costs for software. If the software is purchased or indefinitely licensed or internally generated and enjoys of legal protection, the cost has to be entered in the Balance Sheet under heading B.I.3; if it is temporarily purchased as a license and if a 'one-off' payment occurs, it shall be recorded under heading B.I.4. Finally, if it has been internally generated but without legal protection, it has to be recorded under heading B.I.7 "*other intangible assets*".

If their useful life is foreseeable, the amortization duration will be equal to the expected useful life, if not the standard requires a period up to three years.

With regard to what has to be entered in the notes to the financial statements, as mentioned in the Civil Code[29], these are all useful information not mentioned in the accounts. The elements that must be provided are:

a. the criteria used for the evaluation, in accordance with Art. 2427;
b. the cost, amortizations, impairments, the acquisitions and disposals of each intangible;
c. the composition and the criteria used for the amortization of formation expenses, R&D and advertising costs;
d. as mentioned above, in case goodwill has a useful life longer than five years, the reasons behind the decision;
e. the criteria used for any revaluation made;
f. the reasons and the measurement of any impairment on assets with indefinite useful life.

Finally, the standard points out what should be provided in the management report:

a. expenses for R&D activities, even if not recorded;

[28] They will be amortized once completed and ready to be used.

[29] Art. 2427 of the Civil Code.

b. the contributions and funds received to carry out the researches;
c. a short description of the research activities.

2.2. IAS 38

The International Accounting Standard 38 is the part of the IFRS regulation that prescribes the accounting treatment for intangible assets. It was issued in March 2004 and applies to all intangible assets other than:

- financial assets (IAS 32 Financial Instruments);
- exploration and evaluation assets, expenditure on the development and extraction of minerals, oil, natural gas, and similar resources (IFRS 6 Exploration for and Evaluation of Mineral Resources);
- intangible assets arising from insurance contracts issued by insurance companies;
- intangible assets covered by another IFRS, such as intangibles held for sale (IFRS 5 Non-current Assets Held for Sale and Discontinued operations), deferred tax assets (IAS 12 Income Taxes), assets arising from employee benefits (IAS 19 Employee Benefits), lease assets (IAS 17 Leases), and goodwill (IFRS 3 Business Combinations).

According to IAS 38, an intangible asset is an identifiable non-monetary asset of the entity without physical substance[30]. Even though in practice a large number of intangible *items* exists (patents, software, customer loyalty, etc.) it doesn't mean all of them are intangible *assets*. According to the definition above, an intangible item meets the definition of an intangible asset only if all of the following three criteria are met:

1. Identifiability (IAS 38.12), which means that the asset has to be either separable, i.e. capable of being separated or divided from the company and sold, transferred, licensed, rented or exchanged either individually or together with a related contract; or created as a consequence of a contract or other legal rights.
2. Control (IAS 38.13-38.16). This criterion is said to be met when a company controls the future economic benefits deriving from the asset.
3. Future economic benefits (IAS 38.17). It is expected that future economic benefits will flow to the company from the asset. The future economic benefits may include revenue from sale of products or services, cost savings, or other benefits resulting from the use of the asset.

[30] D. Christian, N. Lüdenbach, 2013, IFRS essentials, John Wiley & sons, p. 337

2.2.a Initial recognition and measurement

An intangible item is recognized as an intangible asset in the statement of financial position if it meets the definition of an intangible asset and if the inflow of future economic benefits is probable and it is possible to measure the cost of the asset reliably.

An intangible asset is measured initially at cost (IAS 38.24).

IAS 38 provides the following acquisition hypothesis for intangible assets:

- Separate acquisition: the cost of a separately acquired intangible asset comprises its purchase price (including import duties and non-refundable purchase taxes, after deducting discount and rebates) and any directly attributable cost of preparing the asset for its intended use. Normally the price paid to acquire the asset will reflect the expectations about the future economic benefits that will flow to the entity from the asset.

BALANCE SHEET	
Patent	

BALANCE SHEET	
	Acc. payable

- Acquisition as a part of business combination: if an intangible asset is acquired in a business combination, according to IFRS 3 Business Combinations, the cost of the intangible asset is its fair value[31] at the acquisition date. Intangible assets acquired in a business combination should be recognized as assets, if the fair value can be measured reliably. If not, they should be included in goodwill.
- Acquisition by a way of a government grant: In some cases, an intangible asset can be acquired free of charge by way of a government grant. In accordance with IAS 20 Accounting for Government Grant and Disclosure of Government Assistance, a company may choose to recognize the intangible asset both initially at the grant and at the fair value. For example when the government transfers or allocates to a company airport landing rights, import licenses or rights to access restricted resources.
- Exchange of assets: Intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost is measured at fair value

[31] The price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

unless the exchange transaction lacks commercial substance, or the fair value of the asset received nor the one of the asset given up is reliably measurable.

- Internally generated intangible assets: IAS 38 contains further requirements and guidance for internally generated intangible assets. First it is necessary to distinguish between research and development. Research is the original and planned investigation undertaken to gain new scientific or technical knowledge, while development is the application of research findings or other knowledge to plan and design the production of new or improved materials, devices, processes, systems, or services[32]. The internal generation of intangible assets is divided into two phases:
    1. research phase - the standard states that no intangible asset arising from research shall be recognized. Expenditure on research is recognized as an expense when it is incurred, since during this phase the company can not demonstrate that the asset will generate future economic benefits.

       Examples of research activities are activities aimed at obtaining new knowledge, or the search for alternatives for materials, devices, processes, products, systems or services.
    2. development phase - an intangible asset arising from development (or from the development phase of an internal project) is recognized in the statement of financial position, if the entity can demonstrate: the technical feasibility of completing the asset; its intention to complete the asset and sell or use it; its ability to sell or use the asset; how the asset will generate future economic benefits, the entity must be able to demonstrate the existence of a market for the output of the asset or the asset itself ; the availability of adequate technical, financial, and other resources to compete the development and to use or sell the asset; its ability to reliably measure the expenditure attributable to the asset during its development.

       Examples of development activities are the design, construction, and testing of pre-use or pre-production prototypes and models, or the design of tools and dies involving new technology.

Internally generated goodwill shall not be recognized as an asset. The reason is that internally generated goodwill is not an identifiable resource (it is not separable and it does not arise from contractual or other legal rights). Moreover, it is not controlled by the entity and it can not be measured reliably at cost. According to IAS 36 Impairment of Assets, only goodwill coming from the acquisition of other business or business combinations can be recognized as an asset.

[32] D. Christian, N. Lüdenbach, 2013, IFRS essentials, John Wiley & sons, p. 339

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognized as intangible assets since the expenditure of such items cannot be distinguished from the cost of developing the business as a whole.

Further examples of expenditure that are recognized as expenses when incurred include:

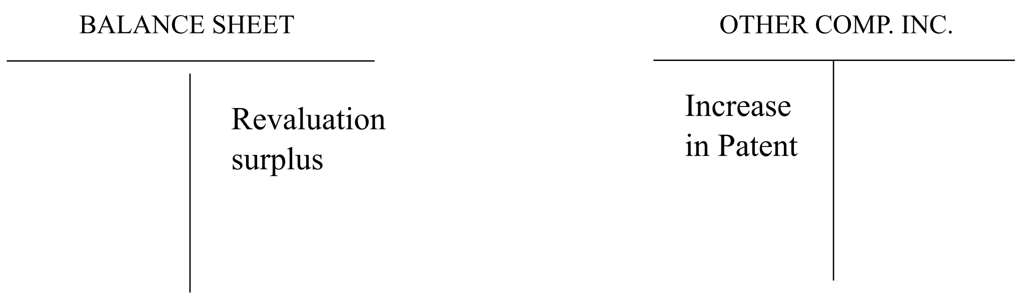
- start-up costs, unless this expenditure is included in the cost of property, plant, and equipment;
- expenditure on training activities;
- expenditure on advertising and promotional activities;
- expenditure on relocating or reorganizing all or part of the company.

2.2.b Measurement after recognition

After the first valuation, the entity has the choice to value the asset by either a cost model, or a revaluation model. This must be done for each intangible asset.

According to the cost model, IAS 38 states that "*assets should be carried at cost less any accumulated amortization and any accumulated impairment losses"*[33].

The main features of the revaluation model for intangibles are generally consistent with those of property, plant, and equipment[34] and it is applied after an asset has been initially recognized at cost. According to the revaluation model, an intangible asset shall be carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated amortization and any subsequent accumulated impairment losses. Fair value has to be determined by reference to an active market. An active market is a market in which the items traded in the market are homogenous; where willing sellers and buyers can normally be found at any time; and where prices are available to the public. Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value. If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be recognized in other comprehensive income and accumulated in equity under the heading of "*Revaluation surplus*".



[33] IAS 38.74

[34] D. Christian, N. Lüdenbach, 2013, IFRS essentials, John Wiley & sons, p. 341

If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss.

Depending on the type of intangible, IAS also requires that the asset is classified as either "*infinite life*" or "*finite life*".

An asset should be classified as having a finite life if it is determined to only having a limited period of benefits. Intangible assets with finite useful lives are amortized over their expected useful life. The amortization begins when the asset is available for use and ceases at the earlier of the date at which the asset is classified 'held for sale' (according to IFRS 5), or of the date at which the asset is de-recognized[35]. The depreciable amount[36] is allocated on a systematic basis over the useful life of the intangible, and to be evaluated it is necessary to previously determine the residual value. IAS 38 states that the residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:

a) there is a commitment by a third party to purchase the asset at the end of its useful life; or

b) there is an active market for the asset and:

- residual value can be determined by reference to that market;
- it is probable that such market will exist at the end of the asset's useful life.

Moreover, the standard states that the amortization method used has to reflect the pattern in which the future economic benefits of the intangible are expected to be consumed by the company; and that it is applied consistently from period to period. Amortization is recognized as an expense in the Income Statement, while the decreased value of the intangible is adjusted in the Balance Sheet.

BALANCE SHEET

	Trademark

INCOME STATEMENT

Amortization exp.	

[35] As in the case of the Italian standard issued by the OIC, see p. 9.

[36] "*i.e. the cost or other amount substituted for cost less residual value*" (IAS 38.8)

On the contrary, the useful life of an intangible asset is indefinite[37] when there is no foreseeable limit to the period over which the asset the asset is expected to generate net cash inflows for the company. An intangible asset with indefinite useful life shall not be amortized. However, it is necessary to test such asset for impairment by comparing its recoverable amount with its carrying amount annually[38]. Moreover, in the case of an intangible not being amortized, its useful life has to be reviewed each period to determine whether it is still appropriate to assume that the useful life of the asset is indefinite.

Amortization is not the only process subjected to intangible assets, they should also be assessed for impairment in accordance with IAS 36 (IAS 38.111). Indeed, the objective of IAS 36 is to ensure that assets are carried at no more than their recoverable amount.

At the end of each reporting period, an entity is required to assess whether there is any indication that an asset may be impaired. IAS 36 has a list of external and internal indicators of impairment. If there is an indication that an asset may be impaired, then the asset's recoverable amount must be calculated. Moreover, the standard states that the recoverable amounts of an intangible asset with an indefinite useful life, of an intangible asset not yet available for use, and of goodwill acquired in a business combination, are measured annually whether or not there is any indication that they may be impaired. If fair value less costs of disposal or value in use is more than carrying amount, it is not necessary to calculate the other amount and the asset is not impaired. If fair value less costs of disposal cannot be determined, then recoverable amount is value in use. For assets to be disposed of, recoverable amount is fair value less costs of disposal. An impairment loss is recognized whenever recoverable amount is below carrying amount, and it is recorded as an expense (unless it relates to a revalued asset where the impairment loss is treated as a revaluation decrease).

For what concerns the impairment of goodwill, the standard requires that it should be tested annually. To test for impairment, goodwill must be allocated to each of the acquirer's cash-generating units[39], or groups of cash-generating units, that are expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated shall be tested for impairment at least annually by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit is not impaired. If the carrying amount of the unit exceeds the

[37] The term "*indefinite*" does not mean "*infinite*" (IAS 38.91).

[38] D. Christian, N. Lüdenbach, 2013, IFRS essentials, John Wiley & sons, p. 343

[39] The CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (IAS 36.6).

recoverable amount of the unit, the entity must recognize an impairment loss, which is allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and then, reduce the carrying amounts of the other assets of the unit pro rata on the basis. The carrying amount of an asset should not be reduced below the highest of: its fair value less costs of disposal (if measurable), its value in use (if measurable), or zero.

2.2.c Disclosure

In conclusion, an entity shall disclose the following information for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

a) useful life or amortization rate;
b) amortization method;
c) gross carrying amount;
d) accumulated amortization and impairment losses;
e) reconciliation of the carrying amount at the beginning and at the end of the period showing:
   - additions;
   - assets held for sale;
   - retirements and other disposals;
   - revaluations;
   - impairments;
   - reversals of impairments;
   - amortization;
   - foreign exchange differences;
   - other changes.
f) description and carrying amount of individually material intangible assets;
g) certain special disclosures about intangible assets acquired by way of government grants;
h) information about intangible assets whose title is restricted; and
i) contractual commitments to acquire intangible assets.

2.3 Differences and similarities between OIC 24 and IAS 38

We have described the accounting framework for intangible assets according to both national and international accounting standards, which present some similarities but also some significant differences.

First of all, the definition of intangible asset given by the IAS 38 is close to the one proposed by the OIC 24, but more specific. According to the international standard, an intangible asset is a non-monetary, identifiable asset without physical substance, which is controlled by the entity and from which future economic benefits are derived; while according to the Italian standard, intangible assets are identified as costs that do not exhaust their utility in a single period and which are capable of bringing future economic benefits.

For what concerns R&D according to the OIC 24, the costs associated to 'basic research' have to be recognized in the Income Statement as operational costs; while the ones associated to 'applied research' and to the development of a specific project or process can be recognized as intangible assets. On the other hand, the IAS 38 makes a distinction between the research phase and the development phase, stating that the costs referred to the former have to be capitalized as expenses in the Income Statement. Differently, for the costs associated to the development phase the standard lays down that an intangible asset deriving from development can be recognized in the statement of financial position, if the entity can demonstrate a number of things which we have mentioned in the previous chapter[40].

Other differences are related to formation expenses. These are not considered intangible assets in the international regulation; but according to the national standard, if their expected utility is continuously verified and if the capitalized amount doesn't exceed the expected value of the future utility they can be capitalized.

About advertising costs, in Italy these can be considered intangible assets if related to multi-annual costs and if they are of extraordinary nature. Contrary, in the IAS they are never considered intangible assets.

Hence, the international accounting standard is pretty clear on the subjects addressed above. Start-up costs for activities such as pre-operational costs, legal expenses, costs for the incorporation; costs for staff training; and advertising and promotional costs are recognized as operating expenses, and not as intangible assets, since the future utility which may be provided is uncertain.

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[40] See p. 16

Considerable differences also relate to the classification. The Italian Civil Code defines seven categories of intangibles[41], that have to be necessarily entered separately in the Balance Sheet. On the other hand, the IAS does not provide specific types of intangibles, rather it merely lists some examples: patent, copyrights, computer software costs, database and trade secrets, trademarks, newspaper mastheads, internet domains, video and audiovisual material, customer lists, customer loyalty, franchises, import quotas, etc. Indeed, it is not necessary to state the classes of intangibles separately in the Balance Sheet. Furthermore, the classification must also refer to the use of the intangible.

Differences can be found also for what concerns the initial recognition. In accordance with the Italian principle, intangibles are recorded as assets in the Balance Sheet when they are linked to expenses actually incurred capable of bringing future economic benefits in multiple periods, also such expenses have to be identifiable and reliably measurable. The recognition is based on the original value of the asset, which is given either by the purchase price (if the asset has been externally acquired) or the cost of production (if the asset has been internally generated). The IAS 38, instead, provides for three main acquisition hypothesis of intangible asset, namely separate acquisition, acquisition as part of a business combination, and internally generated.

Let’s shift the focus on the subsequent step: the measurement after recognition. Differences between the document No. 24 and the international accounting standard exist here too. According to the framework of the Italian standard, the asset is recognized as its initial cost and at the end of each period it is amortized or impaired. The international framework provides for two different models for the measurement after recognition: the cost model and the revaluation model. The first mirrors the national practice, while the second allows to recognize the asset after initial recognition at a revalued amount equal to its fair value. Also in this case, the assets shall be amortized. Not if they have an indefinite useful life[42]: in the case of intangibles with indefinite useful life, they are subject to the impairment test, covered by the IAS 36, every year.

In summary, from the comparison between the OIC 24 and the IAS 38, it appears that:

- the definition of intangible asset given by the Italian accounting standard is wider and hence enables to consider as intangibles a broader set of assets, while in the IAS, the opportunity to recognize certain expenses as intangibles is limited;

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[41] For the classification of the Civil Code see p. 7.

[42] It is specified that, according to the national standards, intangibles with indefinite useful life do not exist. Every asset must be amortized, including goodwill.

- in the international regulation it is possible to measure the intangibles either with the cost model or with the revaluation model, while the OIC provides just for the cost model;
- according to the national practice a duration for the amortization of the assets is always expected;
- the useful life of intangible assets, according to the IAS 38, can be finite or indefinite. In the case of intangible assets with indefinite useful life no amortization shall be applied, but the impairment test shall me made annually.

CHAPTER 3

INTANGIBLES IN ITALIAN LISTED COMPANIES

3.1. Introduction

Over the last years, the harmonization of accounting rules has been one of the main objectives of the European Community, in order to facilitate the development and efficiency of European financial markets. It is very difficult to compare financial statements of the companies if every member state applies different standards. This has represented a brake to the development of financial markets in Europe.

Since an increasing number of countries are involved in global every day transactions, international harmonization of accounting practice is considered to be an important step towards facilitating the business environment. The International Accounting Standards Board (IASB), the Organization for Economic Co-operation and Development (OECD), the United Nations Centre of Transnational Corporation (UN) and the European Union have all developed significant means over the years for the cause of harmonization.

Understanding what is meant by harmonization in accounting is an important point. Just as musical harmony is not necessarily synonymous with unison, so harmony in accounting is not considered the same as uniformity. Harmonization is a process, rather than a state, that has been defined as "*a movement away from total diversity of practice*"[43]. Harmonization is different from standardization, which is defined as a movement towards a state of uniformity: it is comparability of financial statements that seems to be the aim of the harmonization movement[44]. Hence, the European Community's decision to gradually introduce IAS/IFRS[45] standards in each member state arises from the need to rely on a body of organic accounting rules, coordinated and internationally recognized.

International Accounting Standards are accounting standards issued by the International Accounting Standards Board (IASB) and its predecessor, the International Accounting Standards Committee (IASC). The EU regulation 1606/2002 on the application of international accounting standards made

[43] Tay & Parker, 1990, p. 73

[44] V. Sutton, 1993, Harmonization of International Accounting Standards: Is it possible?, Journal of Accounting Education, vol. 11/no. 1, p. 177

[45] There is no real difference between IAS and IFRS: the two principles, born in different ages, coexist and represent a unique body.

this a requirement for listed companies in the European Union. At national level, international accounting standards have been incorporated into Italian legislation by Legislative Decree no. 38/2005, which has distinguished between entities obliged to prepare the consolidated financial statements on the basis of international accounting standards, and entities entitled to apply the IAS/IFRS for the drafting of the financial statements. Specifically, the application of international accounting standards is mandatory for the following:

- listed companies;
- companies with public securities;
- credit institutions and financial intermediaries which are supervised by the *Banca D'Italia*;
- financial corporations holding companies of a bank group;
- investment intermediaries[46];
- asset management companies[47];
- financial intermediaries established by the *Testo Unico delle leggi in materia Bancaria e creditizia*[48]*;*
- e-money and payment institutions.

Moreover, the IAS application is possible on an optional basis for companies that prepare and report consolidated financial statements.

The adoption of these principles is very positively reflected on the company's image, particularly with respect to the evaluation and presentation criteria to stakeholders, especially for listed companies. Therefore, we will analyze the financial statements of three different Italian listed companies operating in three different sectors of the economy, with reference to the application of the IAS 38, which has been deeply examined through the previous chapter[49]. For the consumer goods sector, the selected company is Geox; for the car industry, Ferrari N.V.; and for the media sector, GEDI Gruppo Editore.

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[46] In Italy, these are called "*società di intermediazione mobiliare"* or SIM.

[47] In Italy, these are called "*società di gestione del risparmio*" or SGR.

[48] The TUB is is a consolidated law of the Italian Republic, issued by Legislative Decree no. 385, and in force since 1 January 1994, which regulates activities carried out by banks.

[49] See chapter 2, sec. 2.2.

3.2. Consumer goods sector: Geox

Geox[50] is an Italian leading brand, founded in 1995 by Mario Polegato, active in the creation, production and distribution of shoes and clothing, characterized by the application of innovative and technological solutions. It has a network of 1,161 single-brand stores (706 franchises and 455 managed directly), about 11,000 multi-brand stores and is present in 110 countries.

The extraordinary success that it has achieved is due to the technological characteristics of its shoes and apparel: its innovation stems essentially from the creation and development of special outsoles able to breathe and and to remain waterproof[51]. Thanks to a technology that has been protected by over 60 different patents registered in Italy and extended internationally, Geox products ensure technical characteristics that improve foot and body comfort of consumers.

Below we will examine the intangible assets held by the company's financial statement at the end of June 2017. Intangible assets at the end of June account for 50.803 millions of euros, and are made up as follows:

	Balance at June 30,2017	Balance at Dec. 31, 2016	Change
Industrial patents and intellectual property rights	13,002	14,556	(1,554)
Trademarks, concessions and licenses	640	689	(49)
Key money	34,128	36,253	(2,125)
Assets in process of formation and payments on account	1,895	2,079	(184)
Goodwill	1,138	1,138	-
Total	**50,803**	**54,715**	**(3,912)**

The heading 'industrial patents and intellectual property rights' includes Geox patents, representing the costs incurred to register, protect and extend new technological solutions in various parts of the world, with a useful life of ten years; and the costs of implementing and customizing software programs, which are amortized from three to five years, taking into account their expected future use.

Trademarks include the costs incurred to protect and disseminate them and are amortized for ten years.

The heading 'key money' includes:

- amounts paid to acquire shops that are managed directly or leased to third parties under franchising agreements;

[50] See the website www.geox.biz

[51] The 'shoe that breathes' has been a cornerstone of Geox's corporate mission since the very beginning.

- amounts paid to access leased property by taking over existing contracts or persuading tenants to terminate their contracts so that new ones can be signed with the landlords.

Such items are amortized for a period equal to the one of their rental contract.

Finally, goodwill is initially recognized by capitalizing the excess cost of acquisition compared with the fair value of the net assets of the company recently acquired, and it is not amortized; instead, it is subjected to impairment testing at least once a year, or more frequently if there is evidence of a loss in value.

As we can see from the table above, there have been changes in the value of the intangibles from December 2016 to June 2017. The following table shows these changes during the first half of 2017:

	12-31-16	Purchases and capital.	Transla-tion Differences	Amort./ write-down	Dispo-sals	Other Changes	06-30-17
Intangible assets with finite useful life:							
Industrial patents and intellectual property rights	14,556	731	(3)	(3,707)	-	1,425	13,002
Trademarks, concessions and licenses	689	13	-	(62)	-	-	640
Key money	36,253	134	(30)	(2,171)	(58)	-	34,128
Assets in process of formation and payments on account	2,079	1,242	(1)	-	-	(1,425)	1,895
Intangible assets with an indefinite useful life:							
Goodwill	1,138	-	-	-	-	-	1,138
Total intangible assets	**54,715**	**2,120**	**(34)**	**(5,940)**	**(58)**	**-**	**50,803**

Investments during the period mainly concern:

- personalization of the IT system for a total of 490 thousand of euros;
- the costs incurred for the registration, extension and protection of patents in various parts of the world (241 thousand of euros);
- the costs incurred for the registration, protection and extension of the GEOX trademark in various parts of the world (13 thousand of euros);
- key money costs (134 thousand of euros) for the amounts paid to access leased properties by taking over existing contracts or persuading tenants to terminate their contracts so that new ones could be signed with the landlords;
- assets in process of formation for a total of 1.242 thousand of euros. Such amounts mainly include the sums paid for the further implementations and customizing of the new IT system.

‘Other Changes’ refers to exchange differences, which have affected industrial patents and intellectual copyrights and assets in process of formation and payments on account for the same amount, both for a total amount of 1.425 thousand of euros.

Finally, as regard the standards applied, intangible assets with a finite useful life are recorded at purchase or production cost, including directly-related charges, and amortized systematically over their residual useful lives. Amortization is applied systematically over the useful life of the assets based on the period that they are expected to be of use to the company. The residual value of intangible assets at the end of their useful life is assumed to be zero, unless there is a commitment on the part of third parties to purchase the asset at the end of their useful life or there is an active market for them. Intangible assets with an indefinite useful life are not amortized; instead, they are subjected to impairment testing, according to IAS 36. However, the only intangible with indefinite useful life owned by the company is goodwill, which has been tested for impairment without any reduction.

3.3 Automotive sector: Ferrari N.V.

Ferrari[52] is an Italian sports car manufacturer and one of the world’s best-known luxury brands, founded by Enzo Ferrari in 1939. The activities of Ferrari N.V. are focused on the design, engineering, production and sale of luxury performance sports cars. The cars are designed, engineered and produced in Maranello and Modena (Italy), and sold in more than 60 markets worldwide through a network of 170 authorized dealers. Throughout its history, the company has been noted also for its continued participation in racing, especially in Formula One, where it is the most successful racing team. The importance and leadership that this company has acquired through the decades is the result of a long expertise in engineering and driving performance, in which people are the most valuable resource.

These are the intangible assets recorded by the company at the end of the first half of 2017:

	For the six months ended June 30,	
	2017	2016
	(€ million)	
Intangible assets		
Externally acquired and internally generated development costs	71	80
Patents, concessions and licenses	5	4
Other intangible assets	1	6
Total intangible assets	**77**	**90**

[52] See the website www.corporate.ferrari.com

Expenditures on intangibles account to 77 million of euros for the six months ended June 30 2017. The most significant component relates to externally acquired and internally generated development costs and information technologies costs. In the notes it is specified that such investments are carried out to support the development of current and future product offering. The development costs primarily include materials costs and personnel expenses relating to engineering, design and development focused on content enhancement of existing cars and new models. It is also said that the investment in product development is constantly held to ensure responsiveness to market demand and technological breakthroughs. Investment in other intangible assets mainly relates to costs recognized for the implementation of software. Furthermore, there is no distinction nor specification on the useful life of such assets.

It can be seen on the statement of financial position that goodwill is a separate time line item from intangible assets, accounting for 785.182 thousand of euros at the end of June 2017:

	Note	At June 30, 2017	At December 31, 2016
		(€ thousand)	
Assets			
Goodwill		785,182	785,182
Intangible assets	15	369,586	354,394
Property, plant and equipment	16	676,278	669,283
Investments and other financial assets	17	28,864	33,935
Deferred tax assets		116,472	119,357
Total non-current assets		**1,976,382**	**1,962,151**

Goodwill only shows up on a balance sheet after the union of two entities: when a company buys another firm, anything it paid above and beyond the net value of its identifiable assets becomes goodwill. In May 2013, indeed, Ferrari was incorporated into the Dutch company New Business Netherlands N.V. (for this reason renamed Ferrari N.V.). Hence, we can deduce that the goodwill is referred to this incorporation.

Moreover, the following table shows the related additions, disposals, and amortizations of the intangibles at the end of June 2017.

	Balance at December 31, 2016	Additions	Disposals	Amortization	Translation differences	Balance at June 30, 2017
			(€ thousand)			
Intangible assets	**354,394**	**77,236**	**—**	**(61,984)**	**(60)**	**369,586**

Additions of 77.236 thousand of euros are primarily related to externally acquired and internally generated development costs for new and existing models of cars.

For what concerns the accounting regulation in general, the standards applied are IAS/IFRS. Hence, intangibles with a finite useful life are recorded at purchase or production cost and amortized systematically over their residual useful lives. Amortizations of intangible assets account for 61.984 thousand of euros, between December 2016 and June 2017. On the other hand, intangible assets with an indefinite useful life are not amortized, but just subjected to impairment testing, according to IAS 36. Even for this company, however, the only intangible with indefinite useful life owned by the company is goodwill, which did not have any impairment loss from 2016 to 2017 (accounting for 785.182).

3.4 Media sector: GEDI Gruppo Editore

GEDI Gruppo Editore[53] is a publishing group and one of the largest Italian media companies, born in 1995. It operates across all sectors of communication including newspapers, magazines, radio, internet, television and advertising.

In July 2016 the GEDI Group and ITEDI[54], signed an agreement on the integration of the two companies, aimed at the creation of the major Italian editorial group as well as one of the leading European groups in the field of daily and digital information.

GEDI publishes the most important national newspaper *La Repubblica*, with a circulation of 233,100 copies per day in 2016, the weekly magazine *l'Espresso, La Stampa*, *Il Secolo XIX*, and other magazines. Part of the group are also three national radio stations (*Radio Deejay*, *Radio Capital* and *m2o*) and a few musical TV programs. It is active also in the internet sector and through Manzoni[55] collects advertising for his and for third-party publications.

We shall now proceed to the analysis of the statement of financial position, and hence of the intangible assets held by the company. The following table shows in detail the intangible assets of GEDI, for a total amount of 596.4 million of euros:

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[53] See the website www.gedispa.it

[54] *Italiana Editrice S.p.A.* (ITEDI) was an Italian publishing house, owner and publisher of *La Stampa* and *Il Secolo XIX,* which in 2016 merged with *L'Espresso* and formed the GEDI Editorial Group.

[55] A. Manzoni & C. SpA is the advertising agency of GEDI and of a qualified group of third-party publishers.

	31/12/2016	30/06/2017
Testate e marchi	376.317	483.686
Frequenze radiofoniche	87.374	87.374
Avviamenti	2.733	19.977
Diritti di brevetto ind. e utilizz.opere d'ingegno	31	657
Concessioni e licenze	3.669	4.677
Immobilizzazioni immateriali in corso	9	47
Altre immobilizzazioni immateriali	-	-
TOTALE IMMOBILIZZAZIONI IMMATERIALI	**470.133**	**596.418**
di cui:		
IImmobilizzazioni immateriali a vita utile indefinita	466.424	591.037
Immobilizzazioni immateriali a vita utile definita	3.709	5.381

Mastheads and trademarks are recognized as intangible assets with indefinite useful life. Also radio frequencies have an indefinite useful life, since their use is given by concessions for the exercise of radio broadcasting whose duration is indefinite. Hence, such intangibles are not amortized but just subjected to impairment test, at least annually. Any possible impairment loss has to be entered in the Income Statement under "*Amortizations and Impairments*".

Goodwill is defined as the excess of the cost of an acquisition compared to the fair value of the assets and liabilities. Goodwill generated through the acquisition of associates is included in the value of the related holdings; while acquired goodwill is not subject to amortization but to annual impairment tests. For this reason goodwill is allocated to one or more CGU. Any value reductions that emerge from the impairment test are recognized in the Income Statement, as mentioned above.

As to intangibles with definite useful life, the components are patent rights and intellectual property rights, concessions, licenses and similar rights (i.e. software). The useful lives are given in the following table:

	Vita utile
Diritti di brevetto industriale e di utilizzazione delle opere d'ingegno	2-3 anni
Concessioni e licenze	3-5 anni
Altre immobilizzazioni immateriali	3-6 anni

These are valued at cost less any accumulated amortization, which is determined with the straight-line basis method. The criteria used for amortization, the useful lives and the residual values are reviewed and redefined at least at the end of each administrative period inn order to consider any significant variations.

Moreover, from the first table we can see that no research and development costs have been capitalized and no reversal of impairment has been made.

Shifting the focus on the changes, compared to December 2016 intangible assets increased by 126.3 million of euros. This is due to the consolidation of ITEDI, which led to a provisional and vague recognition of the fair value of the two mastheads *La Stampa* and *Il Secolo XIX* equal to 107.4 million of euros, and of goodwill for a total amount of 17.2 million of euros.

Finally, for what concerns the rules applied to evaluate and account intangibles, the standards applied are IAS/IFRS. Hence, the criteria are the same as reported for Geox and Ferrari[56].

3.5. Comments

The analysis shows that companies have different intangible resources based on the sector of the economy in which it operates. The intangibles most commonly found and shared by all the companies analyzed are patent and intellectual property rights, concessions, licenses, trademarks, and goodwill. However, GEDI (which operates in the media sector) has particular intangible assets related to its economic affiliation: mastheads and radio frequencies.

Moreover, in every case the intangibles are divided based on their useful life.

All the companies analyzed, for the purpose of accounting and evaluating, apply International Accounting Standards (since they are all listed companies). The chosen model is the cost model for every company, in fact since fair value is very difficult to determine the revaluation model is never applied.

[56] See p. 28-29

CONCLUSION

The drafting of the thesis has highlighted the size, importance and the accounting standards applied to intangible assets and has helped to clarify the differences and similarities between the Italian and the international accounting standards.

We have seen, through the consultation of an extended set of references, a very important issue of the current competitive framework of our world. Indeed, it has revealed that to own intangibles means to stand out, to better respond to market requirements, and hence to make higher profits. It has been underlined how the importance of such resources is essential for a company to achieve a competitive advantage. And how it has become necessary to regulate these type of assets.

The second chapter is theoretical, distinguishing the national practice from the international. The former emphasizes the cost model, while the latter provides for the revaluation model at fair value, as an alternative. Another crucial difference between the two standards concerns the amortization. While in the Italian principles all intangibles shall be amortized over their expected useful life, in the IAS not all categories have to be amortized, bringing into consideration a process that in Italy doesn’t exits, namely the impairment test.

The investigation carried out in the last chapter, which has proved to be the most interesting part, helped to better understand the meaning and the evaluation criteria used for intangible assets. This has been possible thanks to both the analysis of real data and because the brands of the companies analyzed are extremely known and widespread. The listed companies have all proven what has been previously said theoretically, namely they all apply the International Accounting Standards. They record intangibles according to the IAS 38 and, more precisely, using the cost model.

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