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SELECTED PROBLEMS OF RECOGNIZING POLISH REGULATIONS AND IFRS

Introduction

Intangible assets are becoming the core resource of contemporary business entities. Despite lacking physical substance and xxxxxxxxxxxxxxx xxxxxxxxxxxxx xxxxxxxxxxxxxxxx xxxxxxxxx (Abrahams & Sidhu, 1998). According to the resource theory, the future of a company depends on core competencies (unique capabilities), comprising, first and foremost, intangible assets. This encourages managers to expend resources or incur liabilities on the acquisition, xxxxxxxxx xxxxx xxxxxxxxxxxxxxxx knowledge, design and implementation of new processes or systems, licences, intellectual property, market knowledge and trademarks.

Intangible assets may take various forms (Johnson, La Porta, Lopez-de-Silanez, & Shleifer, 2000). Usually they fall into one of the following six categories: marketing- related (trademarks, trade names, collective trademarks, newspaper mastheads, xxxxxx xxxxxxxxxxxxxxx backlog, customer contracts and related customer relationships, as well as non-contractual customer relationships), artistic-related (plays, operas, literary works, music, films, photographs, visual and xxxxxxxx xxxxxxxxxxxxxxxxxx contracts), technology-related (patents, trade secrets, databases and computer software), goodwill. The type of intangible assets disclosed to the public depends on the regulations (Ashe & McCutcheon, 2001, pp. 14-20), governing the financial statements. In the Polish accounting law, intangible assets, forming part of fixed assets, are defined as property rights acquired by a company for its own use, acquired goodwill and the cost of completed development projects. According to the Accounting Act, property rights include, in particular: copyright and related rights, licenses, rights to inventions, patents, trademarks, industrial and decorative designs and know-how. On the other hand, IFRS define intangible assets as identifiable non-monetary assets without physical substance, controlled by an entity and from which future economic benefits are expected to flow to the entity (Accounting Act of September 29, 1994, art. 3.1.14). Intangible assets may be internally generated, acquired as part of a business combination or acquired separately.

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One of the most controversial problems in accounting, related to intangible assets, is their generation xxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxx a very narrow extent. A broader view is presented in the International Financial Reporting Standards. The aim of this article is to compare the Polish and international regulations with regard to recognizing internally generated intangible assets.

1. Identification of xxxxxxxxxxxxx xxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxx

The acquisition of an intangible asset through internal generation (or as part of a business combination) often requires long-lasting research, whose findings are later used in the development of new products or technologies. Thus the process of generating such assets is usually divided into the research (McConnell, 1993) phase and the development phase. The research phase involves the discovery, analysis and development of knowledge, whereas during the development phase this knowledge finds a specific application.

The Accounting Act defines neither the notion nor the scope of research and development projects, therefore, in practice, the entities where research and development costs arise are advised to use the definitions provided by international regulations.

IAS 38 Intangible Assets defines **research** as original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. On the other hand, **development** is defined by the said standard as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or *services before* mmercial production or use.

Moreover, the accounting standards (IAS/IFRS) supplement the above definitions with examples of xxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx. The examples are listed in Table 1.

Table 1. Examples of research and development activities

Typical research activities	Typical development activities
▪ activities aimed at obtaining new knowledge ▪ the search for, evaluation and final selection of applications of research findings or other knowledge ▪ the search for alternatives for materials, devices, products, processes, systems or services ▪ the formulation, design, evaluation and final selection of new or improved materials, devices, products, processes, systems or services	▪ the design, construction and testing of pre-production and pre-use prototypes and models ▪ the design of tools, jigs, moulds and dies involving new technologies ▪ the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production ▪ the design, construction and testing of selected solutions in terms of new or improved materials, devices, products, processes, systems or services

Source: based on: (Pydo, 2006).

Using the listed examples, business entities are able to establish relatively precisely the type of activities undertaken and assign them to the appropriate category, i.e. research or development.

It should be emphasized, however, that it is not always possible in business practice to clearly xxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx of internal intangible asset generation remain continuously interdependent, with mutual influence and overlap, as well as numerous connections.

2. Recognizing research and development costs according to the Accounting Act and IFRS

The distinction between research activities and development activities is of fundamental importancexxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxx not allow for the capitalization of research costs, which should therefore be written off. The rationale behind such an approach is based on the assumption that it is impossible at the research stage to specify the probable economic benefits that could be assigned to research expenditure. According to D. Dobija this is due to substantial uncertainty regarding the future results of the costs

If a business entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, IAS 38 requires that the expenditure on that project be treated as if it were xxxxxxxxxxxxxxxxx.

Conclusions

The analysis of selected problems concerning the recognition of internally generated intangible xxxxxxxxxxxxxxx xxxxxxxxxxxxxxxx has yielded the following general xxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxx

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