

## ACCOUNTING TREATMENT FOR R&D ACTIVITIES IN ACCORDANCE WITH IFRS AND ROMANIAN LEGISLATION

Lecturer PhD. Iuliana Oana MIHAI<sup>1</sup>,  
Lecturer PhD. Camelia MIHALCIUC<sup>2</sup>,  
Assistant Cosmin MIHAI<sup>1</sup>,

<sup>1</sup>“Dun rea de Jos” University of Gala i, Romania, Business Administration Department

<sup>2</sup>“ tefan cel Mare” University of Suceava, Romania, Faculty of Economics and Public Administration

<sup>1</sup>[oana.anghel@ugal.ro](mailto:oana.anghel@ugal.ro), <sup>2</sup>[cameliam@seap.usv.ro](mailto:cameliam@seap.usv.ro)

### Abstract:

*In this paper, we will consider the accounting treatment of research and development expenses as operating expenses or intangible assets. The treatment of R&D activities has been a subject of particular controversy internationally. While there is general (but not universal) agreement that research does not give rise to intangible values that can be recognized as assets, there still a disagreement as to whether development may do so subject of to certain criteria. IFRS/IAS does not contain any specific regulations for the accounting treatment of R&D activities. Instead, the general regulations relating to reporting intangible assets are to be applied in this case. The ways of reporting intangible assets are dealt with in particular in the following standards: IAS 38 Intangible assets, IFRS 3 Business combinations, IAS 36 Impairment of assets.*

**Keywords:** *intangible assets, accounting treatment, recognition, amortization, IFRS*

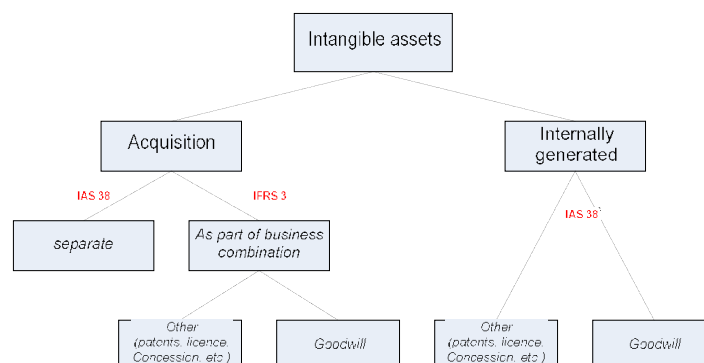
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## INTRODUCTION

IFRS/IAS does not contain any specific rules for the accounting treatment of R&D activities. The general regulations relating to reporting intangible assets can be applied in this case. The ways of reporting intangible assets are treated in the following standards: IAS 38 “Intangible assets”, IFRS 3 “Business combinations”, IAS 36 “Impairment of assets”. When reporting them in balance sheets – according to general accounting principles, a clear distinction has to be made between recognition of the asset and its measurement. In approaching the subject, the aim is to establish whether an item can or must be included on the asset side of the balance sheet or as equity or debt on the liability side or rather has to be shown as an expense or income in the profit and loss statement. This has to be determined independently of the allocation of a value to the item. This allocation then follows in a separate step, the measurement.

## RECOGNITION OF INTANGIBLE ASSETS ACCORDING TO IAS/IFRS

The conditions for recognition of intangible assets are presented by IAS 38. In addition, IAS 38 and IFRS 3 include regulations which deal with the application of recognition criteria in certain cases (Alexander D., 2009). The standards make a clear distinction between internally generated and the acquisition of intangible assets. In the case of acquisition, there is a supplementary distinction between the case of separate acquisition and acquisition in the context of a business combination. Finally IAS 38 includes prohibitions on recognition certain intangible assets (Fig. no. 1).



**Figure 1. Recognition of intangible assets under IFRS/IAS**

Recognition of an intangible asset in accordance with IAS 38 assumes that the item meets the definition of an intangible asset and satisfies the recognition criteria in accordance with IAS 38.

The term “intangible asset” is defined in IAS 38 as “*an identifiable nonmonetary asset without physical substance*”. Because of the reference to assets, the definition of that term, which is similarly included in IAS 38, also has to be taken into consideration: it is “a resource which is controlled by an entity as a result of past events and from which economic benefits are expected to flow in future”.

The existence of an intangible asset therefore supposes – apart from its lack of substance and its non-monetary nature – the possibility of identifying and controlling it and also the expected future economic benefit.

The recognition criteria which have to be met, in addition to the existence of an intangible asset as a precondition for recognizing it on the asset side of the balance sheet in accordance with IAS 38, aim to show that:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of acquiring or producing the asset can be measured reliably.

This being said the recognition of an intangible asset presupposes the existence of the following criteria: identifiability, non-monetary nature, lack of substance, control, future economic benefits, probability of expected future economic benefit flow, reliable measurability (Moser, 2010).

**Identifiability** aims to show that an intangible asset has to be distinguishable from goodwill in the form of a business or company value. In accordance with IAS 38 this is true in two cases: when the asset is “*separable*” and when the asset arises “*from contractual or other legal rights*”.

**The criterion non-monetary nature** is only applied indirectly, when IAS 38 defines the expression “monetary assets”. According to this definition, monetary assets are “money held and assets to be received in fixed or determinable amounts of money”.

**The element of control** of an intangible asset is present if “the entity has the power to obtain the future economic benefits ... and to restrict the access of others to those benefits”. This precondition does not create any problems in the case of legally enforceable claims. Control may however also exist without legal enforceability. This precondition is important for assessing the relevance of an entity’s values connected to human resources or those of a client portfolio, which is not based on contractual relations.

With regard to the **future economic benefits**, IAS 38 explains that this can include: “revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the entity”.

The assessment of the **degree of certainty attached to the flow of future economic benefits** has to be based on “reasonable and acceptable” assumptions that represent the “management’s best estimate”. External rather than internal evidence is of greater importance in this connection.

The assessment of the criterion of *reliable measurability* depends above all on whether the intangible asset was acquired separately or in the context of a business combination or was self-created. This will be expanded upon in the following.

The definition and recognition criteria for intangible assets are presented in Fig. no. 2.

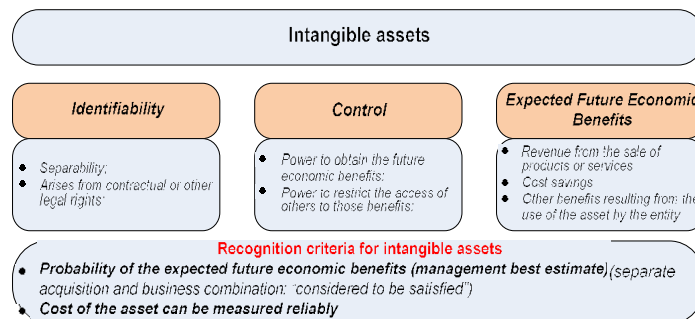


Figure 2. Recognition of an intangible assets - details

### SPECIFICATION OF RECOGNITION CRITERIA IN CERTAIN CASES

The particular cases (Moser, 2010) we will refer next are: internally generated intangible assets, separate acquisition of intangible assets and acquisition of intangible assets through business combination.

In the case of internally generated intangible assets IAS 38 recognizes difficulties in assessing whether the recognition criteria actually exist when: identifying whether and when there is an identifiable asset that will generate expected future economic benefits and

### RELIABLY DETERMINING THE COST OF THE ASSET.

This will become particularly clear when we look at internally created products or the development of a client portfolio. This can cause enormous expenses, with no guarantee that the measures taken will be successful or that it will be possible to attribute the success achieved to the measures taken. The same is of course also the case with the development of technologies.

To assess operationally whether the recognition criteria have been met, IAS 38 classifies the asset generation process into a research phase and a development phase and lays down special regulations or criteria for them. The definitions of the terms "research" and "development" in accordance with IAS 38 and the examples which IAS 38 quotes for research activities and for development activities are presented in Fig. no. 3.

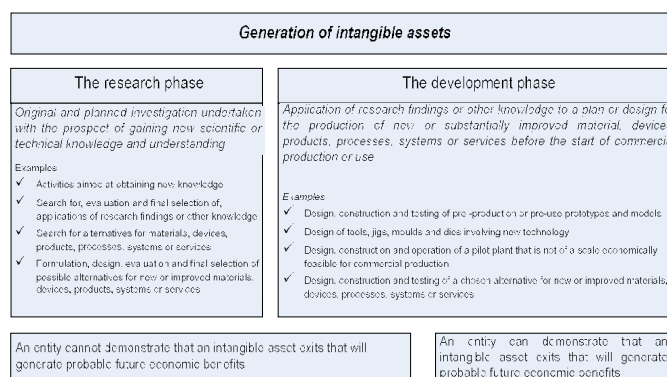
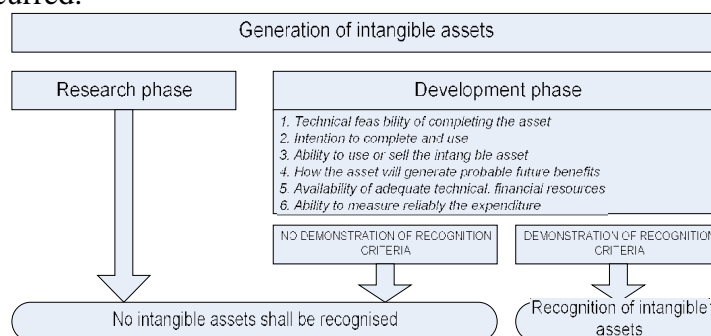


Figure 3. Assessment of the recognition criteria regarding internally generated intangible assets

The compilation process on which IAS 38 is based is designed – through the reference to research and development – especially for the development of technologies. Since this model does not necessarily suit the generation of all other categories of intangible assets, the expressions “research phase” and “development phase” in accordance with IAS 38 have a broader meaning and may, where suitable, be applied to other types of intangible assets. As the question of the recognition of self-generated R&D activities is the subject of our examination here, the following remarks are restricted to a consideration of the development of technologies.

In a project’s research phase the recognition of an intangible asset is not permitted. IAS 38 states that no proof of the existence of an intangible asset capable of generating probable future economic benefits can be demonstrated. Research expenditure therefore has to be treated as an expense when it is incurred.



**Figure 4. Recognition criteria regarding internally generated intangible assets**

In a project’s development phase, on the other hand, the recognition of an intangible asset is mandatory if the entity can prove the fulfillments of all 6 further criteria listed in Fig. 4. Otherwise, development expenditure has to be treated as an expense when it is incurred. First five criteria validate the recognition criterion “degree of certainty attached to the flow of future economic benefits”, whereas the 6<sup>th</sup> criteria merely transfer the recognition criterion of “reliable valuability” to the development phase of intangible assets. Comments on criteria first five criteria are summarized in Fig. 5.

<b>1. Technical feasibility of completing the asset</b>
✓ Demonstration of prototype, models, version of software
✓ Determination of the date the intangible asset first meets the recognition criteria
<b>2. Intention to complete and use</b>
✓ Criteria is not necessary: General Principle
<b>3. Ability to use or sell the intangible asset</b>
✓ General principle: Nobody will develop without expectation of use or sell
✓ Relevant if an official approval is necessary (e.g. Drug approval of EMA or FDA)
✓ More relevant: Intention to use/sell
<b>4. How the asset will generate probable future benefits</b>
✓ More than the recognition criteria: Probability of the expected future economic benefits.
✓ Application of principles in IAS 36 (Impairment Test): Value in Use
✓ Internal use: Demonstrating using internal accounting (Controlling)
✓ External sell: Demonstrating on basis of an existing market for products or services
<b>5. Availability of adequate technical, financial resources</b>
✓ Business plan demonstrating the technical, financial and other resources

**Figure 5. Summary of criteria**

Overall, it can be stated that the criteria illustrated offer to the accountant considerable scope for interpretation and discretion. When assessing the reporting of patents issued to the entity itself, it is necessary to take into consideration the fact that results of R&D activity are technologies, which can, but do not have to, be protected by patents. Consequently it is worth assessing the criteria mentioned for R&D activities irrespective of whether they have been patented or not. A separate examination of patents is therefore not necessary.

For research-intensive entities, the balance sheet treatment of development expenditure can be of considerable importance. This can include a proportionate amount of administrative expenses. In order to contain this, it is particularly important to recognize the point in time at which

development expenditure has to be accounted for and therefore listed separately without a specific examination of the individual case in question, in other words more or less on an automatic basis.

The point in time for the initial recognition of development expenditure is – as just explained – typically determined by proof of the technical feasibility of the intangible asset's completion. The R&D process can help to provide this proof. The process is often characterized by various phases, whose successful completion is documented by milestones. It therefore has to be decided whether the necessary proof of technical feasibility can be linked to existing milestones. If this cannot be done, the possibility of modifying processes, including the milestone model, should be examined.

In the case of *separate Acquisition of Intangible Assets*, IAS 38 assumes that in the case of the separate acquisition of an intangible asset, the recognition criterion of the probability of expected future economic benefit flow is always satisfied, while that of reliable valuation is normally met. By way of justification of the first recognition criterion, the regulation points out that the price paid on acquisition normally reflects the expectations of the probability that the prospective future benefit will flow. The second criterion results from acquisition costs actually incurred. There are no special considerations with regard to R&D activities.

In the case of *acquisition of Intangible Assets through Business Combinations*, IFRS 3 specifies that business combinations should be accounted for by applying the purchase method. The business combination is seen from the acquirer's point of view: the acquirer "purchases net assets and recognizes the assets acquired and liabilities and contingent liabilities". In doing so, all the identifiable assets, liabilities and contingent liabilities of the acquired entity that satisfy the recognition criteria are included, irrespective of whether they were applied by the acquired entity before the business combination. These assets, liabilities and contingent liabilities are accounted for by their fair value at the acquisition date. This results in the closing balance of the acquired entity being transformed into a revaluation balance (fair value status). Goodwill applies in cases where the acquisition costs paid by the acquiring entity exceed the net assets in the revaluation balance of the acquired entity.

The recognition criteria laid down in IAS 38 require special treatment in the case of business combinations:

- the probability that expected future economic benefits will flow is always considered to be satisfied.
- with regard to the reliable measurement of acquisition or manufacturing costs, IAS 38 assumes that the fair value of intangible assets can "normally be measured with sufficient reliability"; in the case of intangible assets with a finite useful life, there is a rebuttable assumption that its fair value can be measured reliably.

In justifying the satisfaction of the first recognition criterion, IAS 38 states that the fair value of an intangible asset reflects "market expectations about the probability that the future economic benefits .... will flow". IAS 38 states that the uncertainty in measuring the asset's fair value arising out of a range of possible outcomes is included in the measurement of fair value rather than demonstrating an inability to measure fair value reliably. To that effect, an intangible asset can only be accounted for separately in accordance with IFRS 3 if:

- the asset corresponds to the definition of an intangible asset defined in IAS 38 – IFRS 3 explains this and also the identifiability criteria once again – and
- the fair value can be reliably measured, which – as just explained – is normally the case in accordance with IAS 38

It can therefore be stated that, in the case of business combinations, in recognizing intangible assets it is only the identifiability criterion that has to be examined in addition to the definition attributes, particularly that of control. Basically, no particular difficulties are expected in the assessment of recognition criteria for patents acquired through business combinations.

In-Process Research and Development Projects (IP R&D) the requirements listed in section "Recognition Criteria for Intangible Assets in Business Combinations" for the recognition of

intangible assets also have to be applied to in-process research and development projects as part of a business combination.

This is the case irrespective of how they were treated by the acquired entity prior to the business combination. A decision regarding their compulsory recognition therefore depends on the definition attributes of intangible assets and the reliable valuation of the fair value.

If the acquirer incurs research and development expense after the acquisition of a research and development project, this has to be treated in accordance with the principles of the recognition of self-generated intangible assets.

## **PROHIBITION OF THE RECOGNITION OF INTANGIBLE ASSETS**

Prohibitions of the recognition of intangible assets arise from the application of the IAS 38 recognition criteria. In this context, IAS 38 includes a number of examples of prohibitions of recognition. These include in particular internally generated goodwill, internally generated brands, mastheads, publishing titles, customer lists and items similar in substance, including subsequent expenditures for such items, start-up costs, expenditure on training activities, expenditure on advertising and promotional activities, expenditure on relocating or reorganising part or all of an entity.

## **MEASUREMENT OF INTANGIBLE ASSETS**

When we are measuring assets and liabilities, there has to be made a distinction between the measurement at the time of the initial recognition, and the measurement in subsequent years.

IAS 38 states the general principle that "an intangible asset shall be measured initially at cost". This is defined as "the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction"

Internally generated intangible assets are measured by their production costs. As to their accrual, IAS 38 refers to the date on which the recognition criteria are met. Production costs amount to the total costs incurred from that date on. Costs recorded as expenses prior to that date may not be recognized as an asset at a later date. In accordance with IAS 38, the construction costs of intangible assets comprise "all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by the management".

IAS 38 lists the individual items attributable to production costs; IAS 38 lists items which are not cost components. The components listed do, however, include not only "directly attributable costs", i.e. individual costs, but also production-related general expenses.

Separately acquired intangible assets are to be valued at their cost of acquisition. This comprises the purchase price and other supplementary acquisition costs (e.g. import duties, non-refundable purchase taxes) after deduction of trade discounts, rebates and allowances. The inclusion of interest resulting from the utilisation of a deferred payment period is in line with the principles of IAS 23.

Supplementary acquisition costs include above all "costs directly attributable to preparing the asset for its intended use". As examples of this, IAS 38 lists costs of employment benefits, professional fees, costs of testing whether the asset is functioning properly.

The acquisition process is completed when the asset is in the condition necessary for it to be capable of operating in the manner intended by the management. Costs incurred after this date may not therefore be included in the acquisition costs.

Examples of expenditures which are not part of the cost of an intangible asset are the costs of introducing a new product, administrative and other general overhead expenses, and start-up losses.

Intangible assets are to be measured initially at cost. A business combination is, however, characterized by the fact that costs are incurred for the combination itself but not for the individual assets, liabilities or contingent liabilities acquired. IFRS 3 consequently states that these items – and

therefore also intangible assets – are to be measured at their fair value, provided that they have to be included at all in accordance with the observations under IAS 38 goes on to remark that the acquisition costs of intangible assets amount to their respective fair value.

The expression “fair value” is defined as “the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction”. In determining the fair value, it is the perspective of a hypothetical and not that of an actual acquirer: the intention for use of the actual acquirer is subordinate to the opinion of the hypothetical acquirer. The fair value reflects “the knowledge and the expectations of the market participants”.

IFRS 3 expands on measures to be treated as fair value. In the case of intangible assets, reference is firstly made to an active market, whereas IAS 38 assumes that such a market does not normally exist for intangible assets. In accordance with IAS 38, the current bid price is the appropriate market price or – if this is not available – the price of the most recent similar transaction may provide a basis, provided that there has not been any significant change in economic circumstances in the meantime.

If no active market exists, the fair value is determined on a basis which reflects the amounts the acquirer would have paid for the assets in arm’s length transactions between knowledgeable, willing and independent parties whereby “recent transactions ... for similar assets have to be taken into consideration”. IAS 38, finally, refers to multipliers, the relief-from-royalty method and the discounting of future net cash flows.

## **MEASUREMENT AFTER RECOGNITION**

IAS 38 allows in principle two possible accounting and measurement methods for measurement after recognition (Alexander D. , 2010).

- the cost model and
- the revaluation model.

In applying either model, impairment losses and amortization charges have, if necessary, to be taken into consideration. This results in the carrying amount which IAS 38 defines as “the amount at which an asset is recognized in the balance sheet after deducting any accumulated amortization and accumulated impairment losses thereon”.

According to the cost model, intangible assets should be carried at cost less any accumulated amortization and accumulated impairment losses.

The revaluation model assumes that the asset will be carried forward at the revalued amount. This is the result of the fair value at the date of revaluation less any accumulated amortization and accumulated impairment losses, where fair value is to be determined by reference to an active market.

In view of the requirements which have to be met for the existence of an active market there are considerable restrictions on the application of the revaluation model. This is what IAS 38 also assumes: “under normal circumstances ..... there is no active market for an intangible asset”, patents, brands and trade marks, inter alia, being listed as examples of these.

The application of the revaluation model also requires that this is in principle also applied to all other assets “of a similar nature and use within an entity”. IAS 38 also describes such a grouping of assets as a class of intangible assets.

Revaluations have to be carried out regularly, although an annual review is not compulsory. Rather, the guiding principle is that “the carrying amount of the asset does not differ materially from its fair value”.

## **AMORTISATION**

In the measurement after recognition of intangible assets, IAS 38 distinguishes between those having a finite useful life and those having an indefinite one. In the case of a finite useful life,

the asset has to be amortized (systematically), but not in the other case. Under these circumstances and in accordance with IAS 38, it is necessary to examine which of the two cases applies.

An indefinite useful life is to be assumed, "if, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the entity"

IAS 38 lists various factors which have to be considered in determining the useful life.

A further significant factor in determining the useful life is the level of future maintenance expenditure. This has to be measured at the level necessary to maintain the asset at its standard of performance assessed at the time of estimating the asset's useful life. A conclusion that the useful life is indefinite should not depend on planned future expenditure in excess of this level.

The useful life of intangible assets resulting from contractual or other legal rights can be determined by economic and legal factors. The former determine the period of the flow of future economic benefits, the latter determine the period over which the entity controls access to these benefits. The useful life of these intangible assets is consequently limited by the legal background. In determining the useful life of patents, their legal limitation to 20 years has to be taken into consideration.

A possible extension of the legal rights can be considered in determining the useful life if the entity can demonstrate that an extension can be achieved without significant costs. In delivering this proof, various factors can be relied upon, such as experience or evidence that the legal requirements for a renewal to be granted will be met, as well as the fact that the extension costs will not differ significantly from the flow of future economic benefits. Should the renewal depend on consent from third parties, such evidence is also required.

In the case of patents a renewal of the legal period can only be considered in exceptional cases, for example when granting "orphan drug status".

Intangible Assets with finite useful lives As already stated in section "Finite and Indefinite Useful Life", intangible assets with finite useful lives have to be amortized. This means that the depreciable amount is "to be allocated on a systematic basis over its useful life". This happens on the basis of an amortization method. The depreciable amount is defined in IAS 38 as "the difference between the cost of an asset, or other amount substituted for cost, less its residual value".

The depreciable amount is therefore determined on the basis of the following factors: Cost of an asset or revaluation amount, Useful life, Amortisation method, Residual value.

As the first two factors have already been discussed at length, the following comments are restricted to the treatment of the two remaining factors.

The choice of *amortisation method* must reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity and is in principle to be applied consistently from period to period. In accordance with IAS 38 the straight-line and declining balance methods as well as the unit of production method are possible, the straight-line method always being applied if the amortisation pattern cannot be determined reliably. In addition, IAS 38 assumes that there is very rarely persuasive evidence to support an amortisation method that results in a lower amount of accumulated amortization than under the straight-line method.

A *residual value* greater than zero can only be applied under exceptional circumstances. This is the case when there is a commitment by a third party to purchase the asset at the end of its useful life or when the residual value, on the assumption that there is an active market, can be determined and it is probable that the active market will exist at the end of the asset's useful life.

The amortisation period, the amortisation method and the residual value must be reviewed at least at the end of each financial year. If necessary, the appropriate modifications have to be made. In the case of intangible assets with finite useful lives, IAS 36 has to be applied to determine whether they are impaired, if there is appropriate evidence.

Intangible assets with indefinite useful lives cannot be amortised systematically. They in fact have to be tested annually or whenever there is an appropriate indication of impairment. The assessment of the useful life of an intangible asset as "indeterminable" has to be reviewed in each



reporting period. Should a change in the classification to intangible assets with finite useful lives take place, an impairment test has to be carried out.

## **IMPAIRMENT LOSSES**

In the measurement after recognition of intangible assets, impairment losses have to be taken into consideration – as already explained. The relevant directives are to be found not in IAS 38 and IFRS 3 but in IAS 36.

The scope of application of these directives is not restricted to the treatment of impairment of intangible assets. Rather, IAS 36 can in principle be applied to all assets, though IAS 36 defines important exceptions. (inventories, construction contracts and of deferred tax assets). The scope of application of the directives does, however, include fixed assets. IAS 36 also has to be applied to goodwill, which cannot be amortized systematically.

An asset is amortized in accordance with IAS 36 if the recoverable amount is less than the carrying amount. On this condition, the asset's carrying amount has to be exceptionally amortized, i.e. has to be reduced to its recoverable amount. In those cases in which the recoverable amount for an individual asset cannot be assessed, the so-called cash-generating units have to be used as a basis for determining the impairment loss on classes of assets in accordance with IAS 36. This procedure also applies to impairments on goodwill.

IAS 36 also regulates the extent to which, in those cases where an impairment loss recorded in an earlier financial period no longer exists in part or in full, a reversal has to take place.

## **ACCOUNTING TREATMENT OF R&D ACTIVITIES ACCORDING TO ROMANIAN ACCOUNTING LEGISLATION**

According to Romanian accounting legislation, only development expenses are treated as intangible assets and they are generated by the application of research results or other knowledge into a plan or project aimed to produce materials, devices, products, processes, systems or services substantially improved before the start of production or commercial use.

An intangible asset generated by the development (or development phase of an internal project) is recognized if and only if, an entity can demonstrate all of the following:

- technical feasibility for completing the intangible asset so that it is available for use or sale;
- its intention to complete the intangible asset and use or sell;
- ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate that a market for production or for generation of intangible asset intangible asset itself or, if they are to be used internally, the usefulness of the intangible asset;
- availability of technical resources, financial and other resources adequate to complete the development and use or sell the intangible asset;
- its ability to assess reliably the expenditure attributable to the intangible asset during its development.

Development costs are amortized over the life of the contract or, where appropriate. If the contract duration or duration of use exceeding five years, it must be presented in the notes, together with the reasons behind it. Where development costs have been fully amortized, there is no distribution of profits, unless the amount of reserves available for distribution and profits brought forward is at least equal to the undepreciated costs.

Examples of development activities given in legislation refer to: designing, building and testing the use of intermediate or intermediate production of prototypes and models; design tools and dies involving new technology; designing, building and operating a pilot plant is not economically feasible for mass production; the design, construction and testing of a chosen alternative for devices, products, processes, systems or new or improved services.

## THE FISCAL TREATMENT FOR R&D ACTIVITIES IN ROMANIAN LEGISLATION

According to Romanian Fiscal Code, in computing taxable profit, for R&D activities the following encouragements are granted:

- a. Additional deduction from taxable profits for 20% of eligible expenses for these activities, additional deduction is calculated quarterly / yearly.
- b. the application of accelerated depreciation for equipment and equipment used.

Tax incentives for R&D activities is the reduction the taxable income of eligible taxpayers with an additional deduction in 20% of the costs incurred by them in the fiscal year for research and development activities, and by the method accelerated depreciation for equipment and equipment for research and development activities. Tax incentives are granted for research and development activities leading to research results, to be capitalized by the taxpayers for their own benefit in order to increase revenue.

Eligible expenses taken into account in granting additional deduction in determining taxable income are as follows:

- amortization of tangible assets created or acquired by taxpayers as new and used in research and development;
- expenditure on staff salaries directly engaged in research and development activities;
- costs of maintenance and repair of tangible assets referred to in point. a) made by third parties;
- amortization of intangibles, acquired by the taxpayer, used in R&D activities;
- operating costs, including costs of consumables, expenses for materials in the inventory, raw materials costs, expenditure on experimental animals, and similar products used in research and development;
- overhead expenses, which may be allocated directly to research results or proportional distribution by using a key, key distribution is used by taxpayers to allocate common costs.

In the category of overhead expenses directly allocated costs can be included: rent, premises where the research and development activities, provide utilities, such as running water, sewerage, sanitation, electricity, gas used appropriate surface research and development activities and expenditures and office supplies, copying and photocopying, postal and courier, telephone, facsimile, Internet, relating to research and development necessary to achieve research results.

In the category of overhead allocated to the key distribution may include costs for: administrative and accounting services, postal and telephone services, IT equipment maintenance services, copying and photocopying, and office supplies, rent location where activities are project, providing utilities, such as running water, sewerage, sanitation, electricity, gas and other expenses necessary for the project.

Eligible expenses are only those recorded in the accounts based on documentary evidence, according to applicable accounting rules. To be eligible for tax incentives, R&D costs must be done in order to achieve revenues. Additional deduction is calculated quarterly / annually as appropriate. In determining the additional deduction in computing taxable profit, eligible expenses will be aggregated and included in the tax register.

Accelerated amortization for equipment and equipment for research and development activities are carried out according to Fiscal Code. Appliances and equipment should be listed in the Catalogue of subgroups 2.1 and 2.2 on the classification and the useful life of fixed assets.

## CONCLUSION

This paper included a series of details about intangible assets. These arise primarily from IAS 38. Details on business combinations result from IFRS 3, on asset impairments and reversal of impairment losses from IAS 36. Given the scope available here, a review of these disclosure requirements has been given out. The accounting treatment of intangible assets has caused great

difficulties and confusion over the years. Much of the confusion has been removed by recent international developments, but the future treatment of intangible assets is under active considerations and discussion, as international professional organizations move towards an acceptance of the use of fair value.

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