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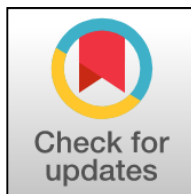
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**On the Need And Ways of Converting Some of the Components of
Goodwill Into Identifiable Intangible Assets**

M.E.Pulatov, rector@sies.uz, (1)

Samarkand Institute of Economics and Service, Uzbekistan

⁽¹⁾ Corresponding author

Abstract

This article justifies the need and ways to transfer some types of exclusive rights from goodwill to identifiable intangible assets. On this way, case of national accounting system and theoretical background of the topic were discussed. Moreover, practical issues and literature review of the different point mentioned on the methodology. Finally, research concludes major points in order to make further development as the whole.

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Introduction

Goodwill, according to business doctrine, is the added value that arises from the sale of a single business unit (a business entity) as a result of a particular transaction. For added business owners, this added value is a profit. For the acquirer, goodwill is an additional payment made in good faith. The difference between the carrying amount of the business unit and the purchase price, as determined by the calculation, is a conditionally accepted condition that the conditional "goodwill" is, in essence, a meaningless property.

So, what are the reasons for the difference between the carrying amount and the value of the business in acquiring a business? In our opinion, the reasons for the difference between the market and accounting method for valuing business capital can be divided into three groups:

- 1) the sale of an enterprise as a property complex is a speculative component of a particular transaction;
- 2) partial defects in accounting for tangible assets;
- 3) non-recognition of intellectual capital components or recognition as an object of accounting.

The speculative component of goodwill is that the mechanical method of finding its value provides a wide range of variations. All payments resulting from the competition for incorrect evaluations or bids will be grouped into one indefinite set under the name of goodwill. These fees may include significant administrative fees to intermediaries, official authorities, and interim financial costs. At the same time, in our view, the importance of the speculative component should be elevated to the level of the only reason for goodwill. According to the national accounting standard 7 Intangible Assets of the Republic, "The amount of goodwill should be considered as a separate inventory and in addition to the price paid by the buyer, anticipating future economic benefits. Consider the negative goodwill as a factor of regular customer presence, quality reputations, marketing and sales skills, business contacts, management experience, staff qualifications, and deferred revenue (future income) in the absence of buyers. You have to get it. "

It is rather strange that the business reputation of the organization is interpreted as a surplus to the expectation of future profits, and a negative business reputation as a discount to the buyer. Behind all this is a deep distrust of the market and the market value. The carrying value of the founders is considered to be the 'fair' value as the single true value, and the deviation is understood as a surcharge or a discount.

The speculative interpretation of Goodwill is that "whipped price" may be contained in a separate transaction, but, according to economic law, it is not the rule for all such economic transactions.

The second group of causes for goodwill is due to the fact that accounting techniques are objectively limited to classical objects such as error accounting, tangible assets. In order to facilitate the hard work of accounting, accounting instruments (asset accounting at initial prices, depreciation and depreciation of fixed assets, etc.) can be objectively differentiated by the actual market price at the date of their reflection on the balance sheet. leads to Existing accounting measures (eg revaluation of assets or their fair value (recovery, market value)) do not completely solve the problem, except for the aforementioned objective factors such as subjective errors in the carrying value of the asset accounting staff. filled.

Goodwill is currently used in valuation activities. Appraisers often think that the difference between the market value of an enterprise and its net assets is exactly the same as the value of goodwill. The difference between accounting at Goodwill is that it is not about the actual purchase price, but about the size of the invoice.

The crisis of the Goodwill concept is that for some time it was not necessary to explain it until the difference between the market and the carrying value of the enterprise was only a few percent of the transaction price. It would be sufficient to highlight this difference in the "goodwill" clause. This did not have a significant impact on the reliability of accounting because it allowed interested users to make informed economic decisions based on it. However, by the end of the 1980s the situation has changed dramatically. A study in the United States showed that between 1978 and 1998, the average value of American corporations' assets and the market value of the enterprise was reduced by 95% to 28%. According to the UK Accounting Standards Commission published in 1994, the amount paid for goodwill increased from 1% in 1976 to 44% in 1987. At the beginning of the 21st century, it became apparent that making this distinction into goodwill was meaningless, as it was 90 percent or more of the sum of transactions.

In our opinion, such rapid growth in the value of goodwill over the past decades is largely due to the fact that most of the intellectual capital of the business is not reflected in accounting. Here are some examples to support this hypothesis. \$ 230 million, according to Edvinsson. Lotos, which owns accounting assets worth \$ 3 million, will receive \$ 3,500 million in cash from IBM in 2015. for \$ 1. Lotos owns \$ 3270 million, which is 94% of the value. What are the assets that are not reflected in the dollar-value balance? According to Edvinsson, they are exclusive rights for new software products; potential customers due to new products; and most importantly, first-rate management, who has been able to correctly identify the direction of the software market development, correctly

calculate the capabilities of the firm and timely capture the market segment. This example is also a rule for representatives of the new economy [Table 1](#).

Company name	Evaluation date	Amount of own capital on the balance sheet (USD mln.)	Market Capitalization (mln. US dollars.)	Share of assets not included in the enterprise's balance sheet
Netskeyp	01.01. 2014 y .	17	3.000	99.4 percent
Sisko System	27.03. 2015 y .	21.390	555.440	96.1 percent
Microsoft	01.07. 2015 y .	47.289	380.000	87.6 percent

Table 1. *The ratio of real and "bookkeeping" assets for particular economic representatives*

The data presented in [Table 1](#) indicate that the process of informatization and intellectualization of business requires revision of the rules for accounting for the intangible assets of an organization. In our opinion, attention should be paid to allocating as much as possible the components of intellectual capital to appropriate identifiable intangible assets, and, as a consequence, reducing the cost of 'goodwill'.

Given the foregoing, as well as the neo-constitutional theory of property rights, identifiable intangible assets of businesses and organizations can be excluded from the goodwill (see [Figure 1](#)).

In the following, we briefly summarize the need and importance of separating some identifiable intangible assets from the goodwill.

1. Exclusive rights for regular use of time, knowledge and skills of a specialist . This right is the basis for all other rights for economic gain. The basis for recognizing it as an intangible asset lies in the notion of "employee time", which means that "the time at which an employee must perform his or her work duties in accordance with the work schedule or the terms of the employment contract." For a specific fee, the organization buys a specialist's right to use his / her working hours. This right is legally enshrined in the employment contract. This right includes, at the very least, the following powers: the right of the specialist to regulate the use of his / her knowledge and skills in time (agenda) and in substance (job descriptions); assignment of duties and control over execution of the specialist so that he can use his knowledge and skills; the right of the expert to use the results of his / her knowledge and skills during working hours

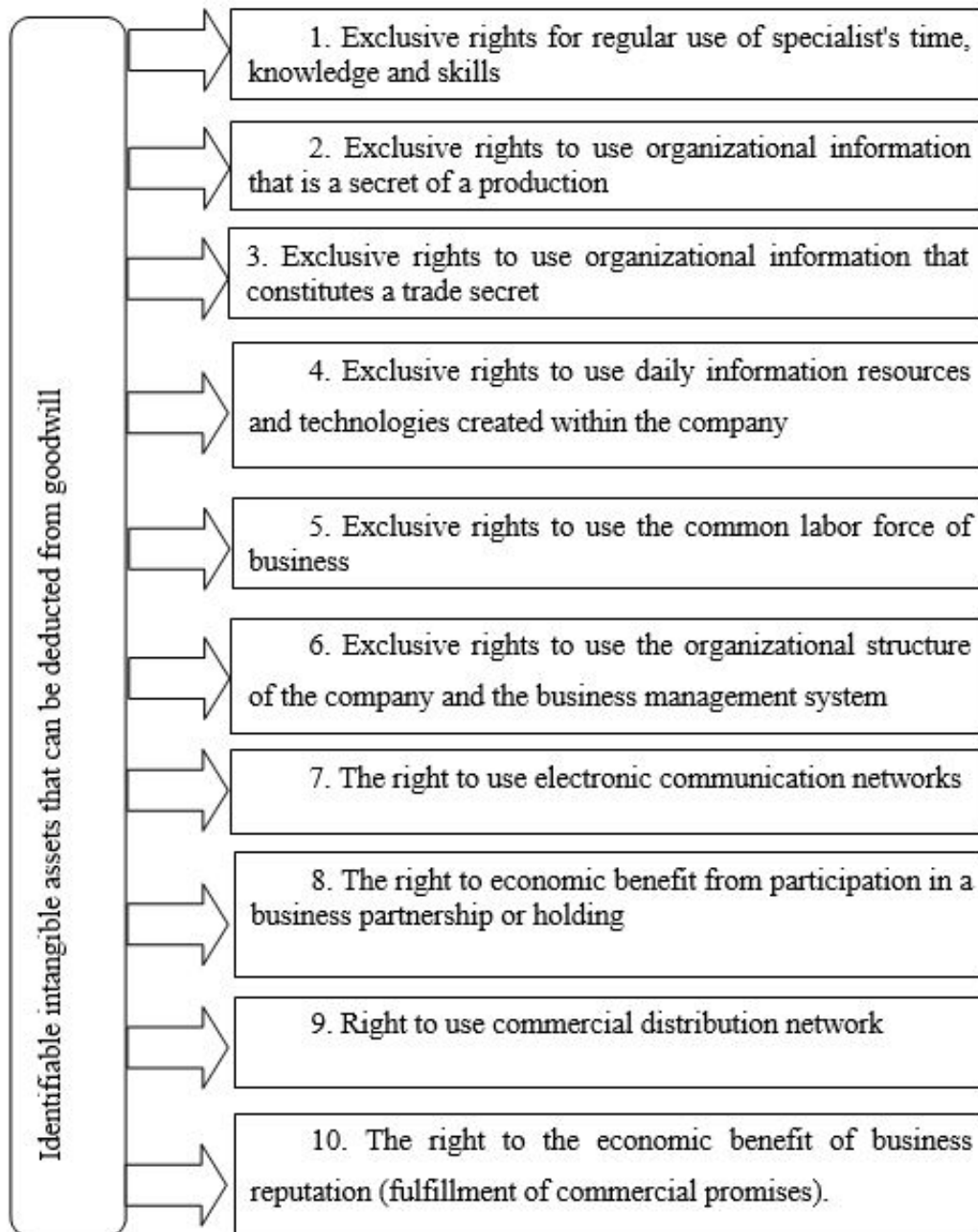


Figure 1. Figure 1. Identifiable intangible assets that can be deducted from goodwill

It should be noted that the first two rights create conditions for the enterprise to receive economic benefits. The direct benefit is obtained by the organization using the third component of the above-mentioned exclusive right.

Recently, the practice of firms' contracting for personnel supply demonstrates that the knowledge and skills of professionals must also be included in the organization's assets. Under this agreement, one firm gives the other the right to use the knowledge and skills of its employees in its activities. As the owner of the knowledge is a particular person, the transfer of such right is legalized as transferring a legally qualified employee to another organization for a specified period. In this case, the knowledge and skills are the subject of the agreement, and not the individual. This example demonstrates that accounting standards are inadequate because the qualifications and ability of employees in an organization cannot be included in the intangible assets of the organization because of their separation from the owner.

In the broadest sense, the firm's ownership of the results of using the specialist's knowledge and skills during working hours includes the right to have the desired results of work, including:

- 1) material results of labor (finished product, semi-finished products, etc.);

2) Intangible results of labor:

1. products of creative labor (inventions, selection achievements, production disciplines, works of science, art, etc.);
1. information resources created within the company;
1. electronic networks created within the company;
1. Other intangible results of professional work.

1) The exclusive rights for creative labor, information resources and electronic networks are independent objects of intangible assets. Therefore, in our opinion, "exclusive rights to the regular use of specialist's time, knowledge and skills" are defined as separate identifiable intangible assets, in the narrow sense of the right to attribute the results of specialist labor as part of these rights, and It is advisable to do so.

2) It is the basis for the separation of intangible assets that can be identified from the broad right to own the results of the work of a specialist at the Institute of Service Works.

3) The peculiarity of these works is that the exclusive right to use them belongs to the person to whom the author has labor relations, that is, the employer.

4) According to current practice, works of service include works created in the form of service obligations or performance of official duties. The results of the intellectual activity of the employee resulting from the performance of duties or on behalf of the employer are considered to be non-material assets created by the organization in accordance with IAS No. 7. The identification of intangible assets thus created is based on the type of service work obtained upon completion. In turn, based on the nature of the product received by the employee as a result of the performance of his or her functional duties, the employment contract and employment contract represent "entitlement documents" for the following intangible assets created by the organization: Exclusive rights for "products of creative labor": inventions, industrial designs, utility models; selection achievements, works of literature, science, art (including topographies of integrated circuits, computer programs and databases); "Know-how";

5) Exclusive rights to use daily information resources and technologies created within the firm;

6) Exclusive rights (in the narrow sense of the word) for regular use of specialist's time, knowledge and skills.

The system of intangible assets presented above is, in essence, an algorithm for the separation of small powers from the broad right of the organization to regular use of specialist time, knowledge and skills.

Exclusive rights for "creative labor" (including "know-how"). Exclusive rights for the "creative labor" are those that are usually regulated by law and reflected in intangible assets, as set out in IAS 7. At the same time, it should be noted that all the laws governing the local rights of a legal entity are a special norm in relation to the relevant works of service created by the order of the employer. In fact, this group is an intangible asset that has been previously referred to as the "product of creative labor" under the general term. The difference in this case is that only the intangible assets created by the entity itself, while the previously considered intangible assets, include all the means by which the organization acquires exclusive rights (purchase, creation, equity contributions, etc.). .

In the organization's rights system for "creative labor", the ability to obtain commercial benefits is limited by the fact that third parties have limited access to certain information (know-how). One of the key factors in increasing the value of knowledge is the inherent nature of knowledge and the inability to use it by competitors. In short, in this case, not the information itself, but the fact that it is unknown to third parties represents the commercial value. Until recently, most of the information classified as confidential was useful technical and technological information used in the production of the intangible assets as "exclusive rights to use technical information (know-how)" that constitutes production secrets. Today, this section is filled with information related to the organization and production economics, commercial activities and financing, which will fill the identifiable intangible assets with the following new items: "Exclusive rights to use organizational information that constitutes production secret"; "Exclusive rights to use information that constitutes a trade secret".

2. Exclusive rights to use daily information resources and technologies created within the company.

Speaking of intangible assets, "exclusive rights to use daily information resources and technologies created within the firm," we mean in the narrow sense the "information system" as a regulated collection of information resources and information technology and storage and transmission through electronic networks. The legal basis for identifying the organization's rights under a separate intangible asset is the allocation of information systems, networks, technologies and facilities to a specific economic activity network. The recognition of the use of information resources in the composition of an organization's property and its use as a commodity, in our view, provides the basis for the identification of rights in an independent intangible asset. Documentation of information, that is, bringing it into a statutory form of presentation, including the identification of the document (information

resource) belonging to a specific legal entity: signature (including electronic signature, stamping, etc.) is a prerequisite.

The value of the intangible asset "Exclusive rights for the use of daily information resources and technologies created within the firm", based on the above rights, arises from the employee's job assignment, the actual costs (materials cost, labor costs, equipment depreciation, etc.). .).

3. Exclusive rights to use the common workforce of business. Exclusive rights to use the total workforce of a particular business are conditioned by the staffing schedule of the organization to which the job description is described: the number and number of professionals required for business (divided by the legal entity's structural subdivisions) and their remuneration system. The essence of the above-mentioned exclusive right arises from the synergy effect. The optimal proportion between the elements of the "total workforce" system (the number of relevant professionals, grouping them into relevant units, differentiating pay levels in the limited financial resources, etc.) is the added value of the total value of all business system elements. creates. The organization's exclusive right to use its common workforce means that when hiring professionals, the firm offers them not only their knowledge and skills, but their potential in a particular system of labor relations. The rule of law is that one specialist uses his or her knowledge and skills in various ways, formally fulfilling the same functional responsibilities in different organizations. The value of intangible assets 'exclusive rights to use the common workforce of business' can be estimated based on the amount of the specialist's labor costs, staff development, staff certification, external staffing services (external organization services).

4. Exclusive rights to use the organizational structure of the company and the business management system. Exclusive rights to use the firm's organizational structure and business management system are provided by the organization, its staffing schedule, and job descriptions, which include specific managerial functions. The essence of this asset is the algorithm of the arrangement of various components of intellectual capital "clearly in space and time", as well as the order of their interaction to achieve business goals. In fact, it is a synergy of business intellectual capital system dynamics, as opposed to static synergy, which forms the basis of exclusive rights to use the common workforce. The value of the intangible assets of the firm "Exclusive rights to use the organizational structure and business management system" is calculated based on the sum of the specialist's salary for the development and maintenance of "management algorithms" contained in the organization's charter, staffing and job descriptions. is possible

5. The right to use electronic communication networks. An electronic communication network is a "technology system for telecommunications, which includes communication facilities and lines." At the same time, communication means "technical and software tools used to generate, receive, process, store, transmit, transmit, or transmit electrical communications," and the concept of "electrical communication" includes signs, signals, voice information, written text, images. , any transmissions or transmissions of sound or any other kind of transmission by radio systems, wired, optical or other electromagnetic systems. Owners of networks and means of communication on the basis of property rights, as well as in the field of communication services are limited by special rules of state regulation by the state. With this in mind, most commercial organizations may have the right to use electronic communication networks on a contractual basis with a communications operator to transmit data and access the network (eg, the Internet) as intangible assets. The cost of these rights (the estimated value of the intangible asset "The right to use electronic communication networks") is determined based on the cost of communication services under the contract.

6. The Right to Economic Benefit from Participation in a Commercial Partnership. Another intangible asset based on the synergy effect is "The Right to Economic Benefits of Participation in a Commercial Partnership." In this case, each participant of a commercial partnership assumes an opportunity to obtain additional economic benefits, which would not be achieved if each of them independently managed it.

These opportunities are achieved by the organization's terms of business partnerships, business concessions, enterprise lease agreements with direct business partners, as well as collective bargaining agreements to create an association of legal entities (as an option - to join an association). is possible. The value of an intangible asset of a non-profit business partnership can be estimated based on the cost of the organization's costs of joining the partnership and the "mediation fees" for the economic benefits it receives.

7. Right to use commercial distribution network. Commercial distribution of products (services) refers to a permanent system that facilitates the sale of end products to the consumer. The right to use the commercial distribution network is obtained by the firm in terms of sales space, agency contracts, contracts for the sale and promotion of goods (services), and for the provision of paid services on opening and maintaining an Internet site. The value of an intangible asset "Commercial Distribution Commercial Network" can be determined based on the amount of expenses of the organization to establish and expand a distribution network.

8. The right or brand of economic benefit to be gained from business reputation (fulfillment of commercial promises). "The right to economic benefit from a business reputation" is the only intangible asset we offer, without any specific documentary (contractual) basis, thus making it difficult to determine its book value. This intangible asset is not an analogue of goodwill, often referred to as the firm's business reputation, which includes other identifying rights, as well as technical defects and speculative components of accounting. The

essence of the proposed “Right to economic benefit from the business reputation” is the value that the firm receives from the buyers for a fee in full for the fulfillment of their commercial promises. The economic logic here is simple: a customer who is confident that the promise will be fulfilled and fulfilled, will be able to keep his business more stable by increasing the value of his business, even willing to pay for it (that is, to be a part of his extra income). In doing so, the firm will be involved in the creation and distribution of the value added of the client's business, in full compliance with its promises. It should be noted that the profit derived from the fulfillment of commercial promises and the value of the customer is the final description of the intangible asset offered by us. Other benefits of the firm are identified in other intangible assets. For example, overpayment by a buyer for a brand or company loyalty is an exclusive right for a trademark or brand name.

Conclusion

In our view, the aforementioned considerations will further enhance the concept of goodwill, which is currently relevant in the world community, to address the problem of recognizing and reflecting this abstract property as an intangible asset.

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