

## Chapter 102

# The Measurement and Recognition of Intellectual Capital in the Process of Accounting Convergence Trends and Patterns

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### ABSTRACT

*The value of intellectual capital has been the main focus in the debates between international professionals and the business world for many decades. Today, this concept interferes with the international process of assessment and with the convergence of accounting. However, it is more likely for a certain period of time to develop both paradigms in parallel and then become convergent, thus solving the paradox of intangible asset valuation. Another challenge would be to extend and adapt this research to the specifics of different national economic systems, to generalize the relationship between intellectual capital and company performance and other countries and industries. This chapter analyzes the answer of the questions regarding recognition, presentation, and evaluation of intellectual capital, and also various controversial issues of this concept, as it is presented in the current project of the IASB and FASB.*

### INTRODUCTION

The value of intangible assets has been the main focus in the debates between international professionals and business world for many decades. Today, this concept interferes with the international process of assessment, but also with the convergence of accounting. The need to determine the value of these assets lies in the more virulent criticism brought to the traditional accounting system, placed face to face with an increasing vision of financial assets of a company. In an uncertain world with imperfect and incomplete markets (financial crisis), no particular measurement objective should be regarded as having a monopoly, and different measurements should be regarded as complementing one another.

DOI: 10.4018/978-1-5225-7362-3.ch102

## ***The Measurement and Recognition of Intellectual Capital***

The problem is how to choose the best of them in the context of satisfying accounting information users' requirements, on the one hand and complying with accounting principles and fundamentals, on the other hand.

Basically, because of different research directions, so confusion can arise regarding the use of terms: intellectual capital, intangible assets, knowledge assets (knowledge assets). Thus, the term intangible assets is used especially in financial accounting, the term is used in active knowledge economy and the term intellectual capital / human capital management is used in particular.

Sometimes the term "intellectual capital" is considered synonymous with the term "intangible assets". OECD definition of the distinction made however, by locating intellectual capital as a subset of intangible assets rather than intangible assets of the company. As a result, there are intangible elements of nature intangible assets are not logically part of intellectual capital. For example, reputation may be the result of judicious use of intellectual capital but is not part of it.

It is an intellectual potential, consisting of knowledge in different forms, which has the ability to make technological and management processes in a number of operational items, assets, creating value, to be integrated the final products both material and immaterial of a company.

Since historically, the distinction between intangible assets and intellectual capital was initially very vague. Producers and users of financial statements consider that in the measurement and presentation of accounting information, the most widely used is the historical cost, although it has some weaknesses. This is usually combined with other bases of evaluation. Moreover, the tendency is to use current cost accounting in response to failure based on historical cost model to solve problems connected with non-cash effect of changes in asset prices.

Accountants, in their turn, reflect accounting estimates only in registers and certainly not the value generated by the presentation of materials. It is a clear dichotomy between the historical cost accounting and fair value in accounting measurement, which creates a productive tension in discussions related to economy based on knowledge. However, it is more likely for a certain period of time to develop both paradigms in parallel and then become convergent, thus solving the paradox of intangible asset valuation.

## **BACKGROUND**

In recent decades there was an idea almost unanimous on the growing importance of intellectual capital. It is said more often today „intellectual capital is the engine of the new economy” or „knowledge and information” is the most valuable commodity. The new economy is recognized as an economy in which companies value lies in the knowledge and skills of managers / employees rather than tangible assets value.

Also, many economists have stressed the importance of intellectual capital as a production factor in comparison with traditional assets. There are two theories on economic growth: the theory of neo-classical growth theory exogenous and endogenous growth. Intangibles reflect different endogenous model.

According to endogenous growth model of production is defined as a function dependent accumulation of immaterial (intangible). Over time, permanent growth is possible only if the intangible capital stock changes virtually forever.

Management problem that intangible asset is not new, and the problem of „intellectual capital” is the last line developed in knowledge management.

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