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drs. Coen A. Arnold
drs. Elbert de With

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drs. Coen A. Arnold

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IN THE NETHERLANDS

Drs. Coen A. Arnold
Drs. Elbert de With

VRIJE UNIVERSITEIT AMSTERDAM

ABSTRACT

During the last few years, accounting for publishing rights has become a hot issue in the Netherlands. This is a consequence of changes in the economy, because of which historically orientated financial valuations presently in use in many cases no longer give a good insight in the factors that determine the value of a (publishing) company. Important elements of this value, like publishing rights, are almost never shown in the balance sheet.

This paper contains a theoretical discussion on accounting for publishing rights in the annual report. The theoretical review leads us to a preferred accounting treatment, which is then compared critically with the US and the Dutch rules on accounting for publishing rights. The American rules are generally ranked among the most important in the world. At the same time, Dutch accounting practice for publishing rights is critically reviewed.

The survey of the Dutch practice of accounting for publishing rights shows that three important Dutch publishing companies do recognize publishing rights as assets on the balance sheet. These publishers act partially according to the American accounting rules and to our preferred accounting treatment. The most important difference is that publishing companies that recognize publishing rights as assets in the balance sheet do not apply systematical depreciation. Also, a large Dutch publisher (VNU) is offering the possibility to put self-developed publishing rights in the balance sheet. This way of acting is not in accordance with the treatment preferred by us. A remarkable result of the research is that in spite of the rather liberal accounting rules for publishing rights in the Netherlands (it is possible to recognize purchased and self-developed publishing rights as assets on the balance sheet), there are not more companies that put publishing rights on the balance sheet.
1. INTRODUCTION.

During the last few years, accounting for publishing rights has become a hot issue in the Netherlands. This is not a consequence of an evolution in financial accounting concepts or changes in the accounting rules. It is a result of changes in the economy, as a result of which the historically orientated financial valuations presently in use in many cases no longer give a good insight in the factors that determine the value and the performance of a company.

The days when owners' equity was an indication of the value of a company, have passed. Important elements of this value, like brand reputation, market position and publishing rights are almost never shown in the balance sheet. There is also the fact that the constant tendency to scale enlargement and expansion has led to a growing number of acquisitions in which an increasing amount of goodwill is involved. In the Netherlands, the purchased goodwill is in most cases deducted from owners' equity. If this method of accounting for goodwill is used over a longer period of time, the effect on owners' equity can be considerable. Large deductions of purchased goodwill can even result in negative owners' equity.

Therefore, more and more publishing companies have valued their intangible fixed assets (mostly publishing rights) and put them on the balance sheet. In 1985 Rupert Murdoch from Australia was the first to put publishing rights on the balance sheet. In the second half of the 1980's this example was followed by a large number of publishing companies in the United Kingdom. In the Netherlands, Elsevier adopted the same policy in 1985, followed by VNU and Wolters Kluwer in the late 1980's.

In November 1993 the Dutch Council for Annual Reporting ('Raad voor de Jaarverslaggeving' (RJ)) has published a Guideline on accounting for intangible fixed assets in the annual report. However, the Guideline does not anticipate on the deliberation of the RJ concerning recognition and amortization of certain intangible fixed assets, like publishing rights. Therefore, the RJ has not taken a clear position on the accounting for publishing rights in the annual report.

This article contains some theoretical remarks on accounting for publishing rights in the annual report. The theoretical review leads us to a preferred accounting treatment, which is then compared critically with the US and the Dutch rules on accounting for publishing rights. The American rules are generally ranked among the most important in the world. At the same time, Dutch accounting practice for publishing rights is critically reviewed.

Of all distinct kinds of intangible assets, only publishing rights are discussed. This article is restricted to problems regarding financial accounting. Therefore, no attention is paid to other legal and tax aspects.
The outline of this article is as follows. Section two discusses goodwill and the related problems, illustrated by an example. Section three discusses the theory of accounting for publishing rights. On the basis of this theory we define the desired accounting treatment of publishing rights in the annual report. Further, in this section we make a distinction between purchased and self-developed publishing rights. Section four deals with the rules on accounting for publishing rights in the United States and the Netherlands. Section five includes the results of a survey of Dutch accounting practice for publishing rights of the publishing companies listed on the Amsterdam Stock Exchange in 1992. The final section contains a summary and conclusions.

2. GOODWILL

2.1. Introduction.
A publishing right can be defined as follows:

"A collection of elements based on creativity and knowledge, that are serviceable to the commercial operation of a company. Publishing rights can occur in various forms, like movies, music, books, titles of magazines and newspapers. The latter include, as determinants of value, data bases, subscription files and relations with advertisers".¹

Publishing companies have a minimum of tangible fixed assets. The value of publishing companies is mainly determined by their publishing rights. At the take-over of another publishing company the purchase price can in the main be assigned to intangible fixed assets. Owing to this, the goodwill problem has arisen in the past few years. In section two this problem is discussed. The final section contains an illustration of the goodwill problem.

2.2. The goodwill problem.
The acquisition price is not based on owners' equity of the purchased publishing company, but on its potential to generate profits. This potential of a publishing company is not determined by tangible assets which it owns, but by the publishing rights of magazines, books, newspapers etc. At acquisition, the positive difference between the purchase price and the value of net assets is called "goodwill". In practice most Dutch companies, just as the publishing companies, deduct goodwill directly from owners' equity.² Since the amount of goodwill at acquisition is often very large, this policy has resulted in very good return-figures in proportion to the value of net assets, but also in a worse owners' equity position. In case of an active acquisition, this policy could result in negative owners' equity. To solve this problem, publishing companies started to analyze the paid goodwill. Books, magazines, newspapers and broadcasting stations turned out to be identifiable sources of profit, often with an established market position. All these identifiable intangible assets were extracted from goodwill and recognized as
assets on the balance sheet. The remaining amount of goodwill deducted from owners' equity consists of unidentifiable elements, like a strong market position or innovative power of the purchased company. This amount is much less then the amount according to the old method, so owners' equity is affected less.

2.3 An illustration: Elsevier.
To illustrate the goodwill-problem we have used the annual reports of Elsevier over the years 1988 and 1989. In its 1988 annual report, the goodwill paid by Elsevier for minority-owned subsidiaries was deducted from owners' equity. When publishing rights would be extracted from goodwill and be recognized as assets on the balance sheet the figures would be affected as follows.

<table>
<thead>
<tr>
<th></th>
<th>Owners' Equity</th>
<th>R.O.E.</th>
</tr>
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<tbody>
<tr>
<td>December 31, 1988 (old system)</td>
<td>323 million</td>
<td>72.93 %</td>
</tr>
<tr>
<td><strong>Plus:</strong> Deducted goodwill</td>
<td>155 million +</td>
<td></td>
</tr>
<tr>
<td>December 31, 1988 (new system)</td>
<td>488 million</td>
<td>48.26%</td>
</tr>
</tbody>
</table>


From the summary above it is evident that different accounting treatments of publishing rights can result in differences between the figures presented in the annual reports. From this it can be concluded that uniformity of rules on accounting for publishing rights is desirable.

3. THEORY - THE PREFERRED ACCOUNTING TREATMENT.

3.1. Introduction.
This section discusses some theoretical considerations of accounting for publishing rights. From this we derive the accounting treatment of publishing rights preferred by us. First, the criteria for recognizing publishing rights as assets on the balance sheet will be reviewed, after which the problems of recognizing purchased and self-developed publishing rights as assets in the balance sheet will be considered.

3.2. Criteria for recognizing publishing rights as assets on the balance sheet.
The question whether intangible fixed assets should be recognized, should be reviewed within the general frame of financial reporting, consisting of the objective of financial reporting, the qualitative requirements which the provided information should satisfy and the criteria for recognizing assets on the balance sheet.
Within the "Conceptual Framework", the American Financial Accounting Standards Board (FASB) has developed criteria which an item should meet to be recognized in the balance sheet. The International Accounting Standards Committee (IASC) followed the FASB and published a more or less identical "Conceptual Framework". In the Netherlands, the RJ has translated the "Conceptual Framework" of the IASC and has added it to its Guidelines as "Stramien". The criteria of the FASB and the IASC are essentially similar. The criteria of the IASC are as follows:

1. 'An asset is a resource controlled by the enterprise as a result of past events and from which future economic benefits will flow to the enterprise'.³
2. 'An asset is recognized in the balance sheet when it is probable that the future economic benefits will flow to the enterprise and the asset has a cost or value that can be measured reliably'.⁴

When an item meets both criteria, it should be recognized as an asset in the balance sheet.

3.3. Accounting for purchased publishing rights in the annual report.

3.3.1. Recognizing purchased publishing rights as assets on the balance sheet.
Comparing purchased publishing rights to the first criterion ('controlled resource'), the expected occurrence of future benefits is decisive. On purchasing the publishing right a publisher will carry out an investment analysis. The starting point of any investment analysis is that the investment must be recovered by future earnings. If a publisher decides to purchase, he takes the view that the project will create profits in future. On that basis it can be concluded that in case of purchased publishing rights the first criterion is satisfied.

In comparing purchased publishing rights to the second criterion, the most important aspect is the possibility to measure the value of the publishing rights reliably. The take-over price is based on the economic value of the company that will be purchased. To determine this value, the purchasing company will make estimates of the value of the underlying components of the acquisition. So, the purchasing company will have, at acquisition, a rather good basis for determining the value of publishing rights.

3.3.2. Valuation of purchased publishing rights.
When comparing the purchased publishing rights to the second criterion ('recognition'), the question is which valuation method should be used. In principle the same valuation methods as for other assets are applicable. The possibilities are: the historical cost method, the replacement cost method, the net realisable value method and the economic value method. The replacement cost method and the net realisable value method however, are not suitable because of the lack of sufficient market data.
When choosing the valuation method, a distinction should be made between separately purchased publishing rights and publishing rights that are a part of a company purchased. If a publishing right is purchased 'separately' then the purchase price is a basis for valuation. The purchase price is a good representation of the fair value of the asset.

However, if the publishing right is purchased as a part of an acquisition then the purchase price of the acquired company cannot be used because this price is made up of various components. Approximating the purchase price of the publishing right, the economic value of the right should be determined. This value is best calculated by using the so-called 'Discounted Cash Flow method' (DCF-method) and is a good measure of the fair value of the publishing right at the moment of acquisition. The value of the publishing right is at most the difference between the take-over price and the value of net assets (exclusive of intangible fixed assets) of the company.

In most acquisitions, payment is not only made for identifiable assets, but also for unidentifiable assets. The latter group of assets is often called "goodwill". In section two we discussed the problem of goodwill.

From the foregoing it can be concluded that purchased publishing rights that are part of an acquisition should be valued at economic value. A question is whether periodic revaluations are desirable. The valuation of purchased publishing rights is, within certain limits, liable to subjectivity. For the sake of the reliability of the information in the annual report, we plead for not revaluing purchased publishing rights that are recognized in the balance sheet. Publishing rights should, in our opinion, be valued at historical costs, which are determined from the take-over price by the DCF-method.

Summarizing, purchased publishing rights that are part of an acquisition should be valued at economic value when the right is first recognized as an asset in the balance sheet. This value is in further years seen as the historical cost price and is not revalued.

3.4. Accounting for self-developed publishing rights in the annual report.

3.4.1. Recognizing self-developed publishing rights as assets on the balance sheet.
A distinction can be made between self-developed publishing rights which are already active in the company ("active publishing rights") and rights which are in the developing process. The latter group of rights represents high uncertainty concerning future revenues. Before the company will develop a publishing right, it shall analyze the profit potential of the right. Based on the assumption that a publishing company will develop a publishing right when it is convinced of the profit potential, it can be concluded that this kind of publishing right meets
the criterion of an asset.

The active publishing rights already have an history. On the basis of historical data the publisher is better able to determine whether the right will yield a profit in future. If it is (reasonably) certain that the right will yield a profit, this right meets the criterion of an asset.

Whether self-developed publishing rights should be recognized as assets on the balance sheet, depends on the question whether the value of the right can be measured reliably.

3.4.2. Valuation of self-developed publishing rights.

For valuation of self-developed publishing rights, the valuation methods reviewed in section 3.3 can be considered. Because of the lack of market data, the choice is reduced to one between the historical cost method and the economic value method.

With regard to the historical cost method the following remarks can be made. Since a large number of costs are being made for the company as a whole, problems can arise at the allocation of these costs to the publishing right. Besides, the cost price of the publishing right gives no indication of the present market value; this value is being determined by future cash flows. The historical cost method is, in our opinion, not suitable for determination of the value of self-developed publishing rights. It is, however, possible to recognize some of these costs as assets on the balance sheet as research and development costs.

The rights which are in the developing process do not meet, in view of the uncertainty of estimating the future cash flows, the criterion of recognition in the balance sheet. It is possible to value active self-developed publishing rights on the basis of the economic value method, but this value is determined with a high grade of subjectivity. Therefore, in our opinion, the value of an active self-developed publishing right can not be measured reliably and should not be recognized as an asset on the balance sheet.

Information about the self-developed publishing rights could, however, be relevant for the users of financial reports. Such info could be disclosed in the Notes or the Report of the Board of Directors. At the same time, the publisher could pay attention to the total costs paid for market research, research- and development costs of publishing rights and the expectations for the future profit potential of the publishing rights. An example can be found in the annual reports of American oil companies. Analogous to the rules on accounting for publishing rights in the United States, the oil companies are obliged to give information concerning their oil and liquid gas reserves. This information is included in the Notes. The oil and liquid gas reserves are not recognized as assets on the balance sheet.
3.5. Depreciation and incidental decreases in value.
In general, purchase price minus salvage value of recognized assets should be depreciated during the expected useful life of the asset, according to the matching principle. Intangible fixed assets are, just as tangible fixed assets, subject to economic devaluation so these intangible assets should be depreciated. The depreciation period is the expected useful life. This is the period during which positive revenues are expected to occur from the intangible fixed asset.

Concerning the method of depreciation a publishing company can choose between linear depreciation, decreasing depreciation, increasing depreciation and depreciation on the basis of use of the asset. In selecting a depreciation method, the decline in value of the intangible fixed asset should be considered. Since this is very difficult to estimate, in our opinion the most simple method of depreciation should be used, which is the linear depreciation method.

Next to periodic depreciation incidental decreases in value should be taken into account if these decreases are expected to be permanent. This means that the bookvalue of the intangible fixed asset is compared with the economic value of the asset at that moment (the so-called 'ceiling-test') and if this economic value is less than the bookvalue, and is expected to remain so permanently, a decrease to economic value should be executed. The incidental decreases should be recognized in the profit and loss statement, next to the periodic depreciation of the intangible fixed assets.

4. ACCOUNTING RULES.

4.1. Introduction.
This section discusses rules on accounting for publishing rights. First, the accounting rules in the United States are considered. These rules are generally ranked among the most important in the world and often influence those in other countries. Next, accounting rules in the Netherlands are discussed. Finally, both sets of accounting rules are reviewed on the basis of the theory.

The accounting rules from the International Accounting Standards Committee (IASC) will not be discussed because the IASC has not yet developed specific accounting rules for publishing rights. The IASC has developed a standard on accounting for goodwill. According to this standard, goodwill should be recognised as an asset and amortised over a period not exceeding 20 years. The costs of internally developed goodwill should be charged to income. It is to be expected that the same line of conduct will be followed concerning publishing rights.
The UK is an important country in the field of accounting standard setting. According to the UK and also the Australian accounting rules (ED49 "Accounting for identifiable Intangible Assets"), it was possible to recognize both acquired and internally developed publishing rights as assets on the balance sheet. The Accounting Standard Board (ASB) in the UK made a proposal not to consider publishing rights as independent intangible assets. In Australia E49 was withdrawn. The end of the discussion in the UK and in Australia is not yet in sight. In this article we will not consider the rules of accounting for publishing rights in Australia and the UK, but by describing the Dutch situation we want to make a contribution to this discussion.

4.2. Accounting rules in the United States.

In 1970, Opinion No. 17 on Intangible fixed assets was published by the (then) Accounting Principles Board (APB). The APB is the predecessor of the Financial Accounting Standards Board (FASB). In Opinion No. 17, two classifications are used to determine the appropriate accounting treatment of intangible fixed assets:

a) the classification of purchased versus internally developed intangibles
b) the classification of identifiable versus unidentifiable intangibles

Purchased intangible fixed assets should be recognized as assets on the balance sheet, both the identifiable (for example brand names, licences, publishing rights) and the unidentifiable (particularly goodwill). The identifiable purchased intangible fixed assets should be valued at cost. The value of intangible fixed assets that were purchased as part of a group of assets or a company is usually based on the fair value of the assets. Costs of identifiable intangible fixed assets are not allowed to be included in goodwill. Amortization should be based on the estimated useful life. The estimation of the useful life should be based on all relevant factors but is not allowed to exceed a period of 40 years. When useful life is estimated to be longer than 40 years, one must nevertheless amortize over 40 years. A subjectively chosen shorter period is not allowed.

In the United States companies should use the method of linear depreciation unless they prove that another systematic depreciation method is better. When a new estimation shows a decline in value, a write off chargeable to owners’ equity has to be made.

With relation to internally developed intangible assets Opinion No. 17 states that 'the costs of developing, maintaining or restoring intangible assets that are not specially identifiable, have indeterminate lives, or are inherent in a continuing business and related to an enterprise as a whole, like goodwill, shall be deducted from income when incurred.' The unidentifiable internally developed intangible fixed assets can not be recognized as assets on the balance sheet.
From the later accounting rules of the FASB it appears that the costs of internally developed intangible assets (like licences, publishing rights) should be treated as costs of research and development. Research and development costs can not be recognized on the balance sheet. SFAS 2, invoking the prudence principle, require that these costs are charged to income.

4.3. Accounting rules in the Netherlands.

Legal accounting provisions with regard to intangible fixed assets are found in article 365 of the new Civil Code. This article provides a list of items which must be disclosed separately among the intangible fixed assets:

a) costs of issuing of stocks;

b) costs of research and development;

c) costs of obtaining concessions, licences and rights on intellectual property;

d) costs of purchased goodwill;

e) prepayments on intangible fixed assets.

The drafting history of the law shows that recognizing these intangibles as assets is optional rather than mandatory. The parliamentary records show that such assets should be treated with a certain distrust because their value is difficult to determine. The official commentary on the law states: 'Not putting intangible fixed assets on the balance sheet will not infrequently be preferable.' Further legal regulations are discussed below, together with the accounting rules issued by the Dutch Council for Annual Reporting (RJ).

In November 1993 the Council for Annual Reporting (RJ) published a Guideline on intangible fixed assets and connected costs. This statement does not anticipate the outcome of the deliberations within the RJ concerning recognition and amortization of certain intangible fixed assets, like brands and publishing rights. The RJ has published a discussion memorandum on these matters at the end of June 1991. This discussion serves as an appendix to chapter 2.01 of the Guidelines issued by the Council (Richtlijnen voor de Jaarverslaggeving). By issuing the discussion memorandum the RJ aims at stimulating the exchange of views and obtaining the reactions of users of the Guidelines (Richtlijnen voor de Jaarverslaggeving) and other interested parties.

In the memorandum, the RJ mentions two criteria: 'identifiability' and 'separability'. If an intangible right does not meet these requirements, then, according to the provisional opinion of the RJ, the item can not be seen as a separate object and is therefore an undetachable part of the acquired company's goodwill. If an intangible right clearly meets the requirements, it should be recognized as an asset on the balance sheet. The principle of prudence should always be taken into account.
According to the RJ, purchased publishing rights meet the requirements of intangible fixed assets. When purchased publishing rights also meet the requirements of 'identifiability and separability' they should be recognized as assets on the balance sheet. Intangible fixed asset can, according to the RJ, be acquired directly or by investment in a company that owns the publishing right. According to the law, the valuation basis for purchased intangibles can only be the cost price (article 384 paragraph 1). In case of purchasing an intangible asset by acquiring another company, the amount that is put in the consolidated balance sheet must be excluded from the total cost price of the investment. As a rule, this will happen on the basis of actual value (in casu the economic value) of the intangible fixed asset at the moment of acquisition.

The cost price must also be used subsequent to purchase. If in the long run the actual value of any asset on the balance sheet deviates significantly from its actual and its book value, the actual value has to be disclosed in the notes. Art. 384 paragraph 4 provides that assets must be amortized annually by depreciation based on expected useful life. This general provision also applies to intangible fixed assets with a limited useful life. Neither the law nor the Richtlijnen prescribe a depreciation method.

In case of a structural decline in value of the intangible fixed asset, an extra write-off should be made. The RJ has not reached consensus on the issue of determining the maximum length of the depreciation period. Prior to issuing an opinion on this problem, the RJ wants to receive the responses to the discussion memorandum and to await the outcome of the international discussions going on about this topic.

In the opinion of the RJ the internally developed publishing rights meet, in principle, the definition of intangible fixed assets. The RJ has written 'in principle' because this has practically no consequences for internally developed publishing rights since they will rarely meet the requirements of the criteria 'identifiability' and 'separability'. Particularly internally developed publishing rights in the development stage will almost never meet these requirements. The costs of developing these publishing rights can be included in the balance sheet item 'Research and Development'. By doing so, the company has to amortize the costs over a maximum period of five years (art 386 paragraph 3).

4.4. Comparison between the theory and the accounting rules.
If a publishing right is purchased separate then, in our opinion, the right should be valued at purchase price. Purchased publishing rights that are part of an acquisition should in our opinion be valued at economic value at the purchase moment. This desired accounting treatment is followed in the United States. The accounting rules in that country make a difference between identifiable and unidentifiable intangible fixed assets. The identifiable
intangible fixed assets are valued at fair value.

The publishing rights that are recognized as assets on the balance sheet should, in our opinion, be amortized over its expected useful life. If the publishing company can not determine the useful life, a useful life between twenty and forty years should be used. The APB and the RJ take the position that recognized rights should be amortized over the expected useful life. There is no agreement on the maximum useful life. In the United States this maximum is forty years. In the Netherlands, no maximum useful life is included in the accounting rules.

The value of self-developed publishing rights can not be measured reliably. Therefore, in our opinion, these rights should not be put on the balance sheet. It is however desirable to include information concerning the value of these rights in the Notes or in the Report of the Board of Directors. In the United States, the unidentifiable self-developed publishing rights are not recognized as assets in the balance sheet. In the Netherlands it is possible for a publisher to put self-developed publishing rights on the balance sheet if these rights meet the criteria for recognition. The mode of treatment is then the same as with purchased publishing rights. The RJ has remarked that self-developed publishing rights will hardly ever meet the criteria for recognition.

6. SURVEY OF DUTCH ACCOUNTING PRACTICE.

5.1. Introduction.
On 31 December 1992, the following publishing companies were listed on the Amsterdam Stock Exchange: Elsevier, Telegraaf, VNU, Wegener and Wolters Kluwer.

From analyzing the 1992 annual reports of Wegener and Telegraaf it appeared that these two companies did not put publishing rights on the balance sheet. Wegener deducted acquired intangible fixed assets from owners' equity. Telegraaf charged paid goodwill to income over a period with a maximum of five years. They adopted this line of conduct to better present the connection between revenues and costs.

The other publishing companies listed on the Amsterdam Stock Exchange do recognize publishing rights as assets on the balance sheet. The accounting treatment of publishing rights of these companies is discussed in more detail in the next sections.

5.2. Elsevier.
Elsevier's position on accounting for publishing rights was elucidated by the chairman of its
Board in the annual report over 1989. Elsevier states that owners' equity as shown in the balance sheet is neither in a fair proportion to the earnings capacity nor to the real value of the company. The value of a publishing company is mainly determined by the invisible (intangible) equity elements like publishing rights. That is the reason why Elsevier proceeded to recognize publishing rights in the balance sheet. This value of recognized publishing rights is based on proven cash generating capacity, mostly with the help of valuation reports by a third party, but also on the potential cash generating capacity. The take-over price actually paid provides a ceiling for valuation of the intangibles acquired. Expenses for new products are in most cases deducted from income. If expenses for new products are put on the balance sheet, they are valued similarly.

Elsevier declares that the economic value of publishing rights is in principle not subject to periodical decline in value. There is no wear and tear in the technical sense and because of its intangible character the value of a publishing right will grow with changes in the market. Because of this characteristic of the right, Elsevier has decided to follow the lead of other large European publishers and dispense with automatic annual depreciation on the balance sheet value. The balance sheet now functions better as a graduator for the invested equity because there are no annual depreciations that are not connected to the value decline of the publishing rights. Periodical depreciation is being used for publishing rights in the balance sheet that have a demonstrable temporary character. In case of a structural decline of the earning-capacity below the level that underlies this valuation, this value decline is deducted from income.

5.3. **VNU.**

In the Report of the Board of Directors in the annual report of 1989, the chairman elucidates the reason why VNU proceeded to value publishing rights in the annual report. This valuation aims at giving a more realistic representation of the size of owners' equity. At the same time a better junction with international evolutions is achieved.

The system formerly used by VNU (goodwill deducted from owners' equity) reduces the company's amount of equity and wrongly suggests an abrupt reduction of owners' equity in case of an acquisition. Purchased publishing rights from third parties are put on the balance sheet at the value attached at the acquisition if this exceeds a fixed minimum. This attached value is related to the profitability of a publishing right and the internally used minimum required return for investment projects, but is not allowed to exceed the purchase price. The self-developed publishing rights can also be put on the balance sheet if they exceed a fixed minimum. The attached value is then related to the profitability in the year that the development process is considered to be completed. The maximum value is the costs incurred for development.
When publishing rights do not wear off by using them or by the passage of time, no systematic annual depreciation is applied. In case it must be expected that the value of a publishing right will decrease as the time passes, linear depreciation is applied based on the expected service time. The valuation of publishing rights that are not annually depreciated is systematically tested. This test is subject to steadily applied rules. When a structural decrease of a publishing right has occurred, an extraordinary depreciation of the value of that publishing right on the balance sheet will be deducted from income. Concerning the system of not depreciating intangible fixed assets, VNU claims that publishing rights normally do not wear off by using them or the passage of time. An incidentally adjusted valuation based on the actual circumstances leads to a more realistic valuation of intangible assets than a rectilinear annual depreciation.


In the 1989 Report of the board of directors, the board explained why Wolters Kluwer started to valuing publishing rights in the balance sheet. The board of directors claims that in the line of publishing companies, in the Netherlands as well as internationally, the opinion about the way owners’ equity should be presented is changing. At the same time, Wolters Kluwer acknowledges that by the traditional way of accounting for purchased goodwill in case of a take over, owners’ equity was systematically lower than when publishing rights would be taken into account. In various countries particularly the United Kingdom publishers recently decided to identify publishing rights in the broad sense in case of acquisitions and to put them on the balance with for that purpose suitable techniques. In these cases the published amount of equity improved. The publishing rights purchased from third parties, including address files and data bases are valued.

Value is determined according to one of three approaches, depending on the type of publishing right:

- the value of the asset concerned is based on the discounted value of a future royalty flow which is dependent on market position and profitability.

- the valuation of subscriptions connected with publishing rights is based on the discounted cash flow for a number of years and allowance is made for a deduction of the pay for the other production factors including the mentioned royalties.

- the value of an asset is put on a par with an estimation of the costs that would have to be made to replace or reproduce the asset concerned. It appears from the context that this method is used for issuing costs, licence rights, manufactured information systems (for own use) and publishing rights with a demonstrable temporary character.

The purchase price is the maximum for valuation.
Wolters Kluwer claims that publishing rights in general do not have a foreseeable finite useful life. In this light, systematic depreciation can in principle be omitted. Writing off will take place in case of structural declines in value.

5.5. Comparison between theory, accounting rules and practice.
Elsevier, Wolters Kluwer and VNU do recognize publishing rights as assets on the balance sheet. This is in conformity with the American accounting rules and the accounting treatment desired by us. With regard to the traditional accounting treatment there has been a considerable improvement. Other Dutch publishing companies should take the three publishers as an example. The three publishers mentioned do not depreciate recognized publishing rights. In our opinion, recognized publishing rights should, in conformity with the accounting rules in the United States, be amortized over a period of forty years at maximum.

VNU is offering the possibility of putting self-developed publishing rights on the balance sheet. This line of conduct is, in our opinion, not in agreement with requirements of a reliable valuation. At the same time this is not in conformity with the American accounting rules.

The three publishers could improve their financial reporting by including additional information concerning the value of self-developed publishing rights in the Notes or the Report of the Board of Directors. The financial reports of oil companies with relation to oil and liquid gas reserves can serve as an example.

5. SUMMARY AND CONCLUSIONS.

If intangible fixed assets meet the requirements of the universally prevailing criteria for recognizing them as assets on the balance sheet, a better insight will be achieved by recognition them separately on the balance sheet. The criteria for recognition are twofold. First, an item has to meet the requirements of an asset. The cash generating capability of the item is most important. Because of the fact that companies usually apply investment selection procedures before purchase or development can take place, it can be argued that publishing rights will generally meet the requirement for assets. Second, the asset must meet the criterion for actual recognition which requires that a reliable value can be assigned to the asset.

If a publishing right is purchased separately, the publisher should value at cost. If the publishing right is part of an acquisition the economic value should be measured as an approximation of the historical cost. The publishing rights should, in our opinion, be valued, at most, at the difference between the take-over price and the value of net assets (exclusive of intangible fixed assets) of the company. This means that in the first year publishing rights are put in the
balance sheet at economic value, and this value is seen as the historical cost price in the next years.

Self-developed publishing could be valued with the help of the economic value method (the DCF-method). However, this value is determined with much subjectivity. The unreliability of this value in such that, in our opinion, self-developed publishing rights should not be recognized as assets in the balance sheet. However, it is desirable to include information concerning these rights in the Notes of the Report of the Board of Directors.

If an intangible fixed asset is recognized as an asset on the balance sheet, the publisher should amortize the recognized amount during the expected useful life. The useful life is established arbitrarily, but should lie between twenty and forty years. Depreciation should be done using the linear depreciation method. At the same time, incidental decreases in value should be taken into account.

The desired accounting treatment agrees with the accounting rules of the United States. The accounting rules of the IASC will probably correspond to the American rules. The Dutch accounting rules should also follow the American accounting treatment.

The investigation of the Dutch practice of accounting for publishing rights shows that three important Dutch publishing companies put publishing rights on the balance sheet. This is, in our opinion, an important improvement in financial reporting of these companies. These publishers act partially according to the American accounting rules. The most important difference is that publishing companies that recognize publishing rights as assets in the balance but do not apply systematical depreciation. Also, VNU went onto put their self-developed publishing rights in the balance. This way of acting is not according to American accounting rules. A remarkable result of the research is that in spite of the rather liberal accounting rules for publishing rights in the Netherlands (it is possible to recognize purchased and self-developed publishing rights as assets on the balance sheet), there are not more companies that put publishing rights on the balance sheet.

The RJ should publish a clear guideline on accounting for publishing rights in the annual reports. This guideline should, in our opinion, in the main agree with the American accounting rules. Practice should follow this guideline.
7. LITERATURE.


Krens, F., De activering van merken in de jaarrekening, *De Naamloze Vennootschap*, July/August 1990.


FURTHER READING.


Reilly, K., Accounting for intangibles, *Chartered Accountant* (Australia), November 1989, pag. 65-70.


NOTES.

1. Dalhuizen, J. en Ploos van Amstel, M.J., 1992, pag. 27.
2. NIVRA, 1990, question 3.05, page 35.
5. IASC, ED 45.