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BRAND POLICY AND ACCOUNTING ADVICES IN NATIONAL AND INTERNATIONAL LEGISLATION

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Abstract

The brand represents the key element for a company’s development, because it helps maintaining a long-term relationship between the consumer and the producer. The assessment of a brand implies some disadvantages and this leads to an ample research of the European and National Legislation in order to clarify the application context of the brand policy. The advantage of discovering a new brand’s assessment method will influence the consumers’ attraction, the products’ modernization and eventually maximizing profits with low costs. In this way, the next step after the legislation’s evaluation is to establish that the application of the brand policy will motivate the companies to extend the products’ distribution area on the local, national or even international plan.

Keyword: brand policy, accounting treatment, IAS 38, OMFP 1802/2014.

JEL Classification: M00, M41

I. Introduction

In recent years, terms such as ”goodwill, trademarks, brands, patents, employees’ performance are treated with greater interest because they can offer certain advantages that can be crucial in competitive struggle to attract the market and customers” (Cosmulese & Alexandru, 2017: 220).

Today we cannot talk about successful business activities whether it's products or services without talking about successful trademarks/brands. In fact, behind successful brands, intangible assets with a very high value are: innovation, business reputation, quality assurance.

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Companies operating an international branding policy (Pepsi, Microsoft, Disney, etc) have intangible assets of consistent value, but at the same time, they face major difficulties in fair value measurement, which should be objectively recognized in the reporting financial (Cosmulese, 2018).

For a better understanding of brand policy, a broad analysis of branding needs to be done. Over time, some controversy has emerged between brand and trademark notions. These controversies are based on the use of different terminology, and most often responsible for this "war" are non-specialized translators who fail to make the fundamental distinction between the two concepts (Sasu, 2005).

The trademark is a "distinctive sign of the entity (or manufactured and / or marketed) and may be any represented graphic, including emblems, words, sounds or shapes of the product or its packaging" (Socoliuc & Grosu, 2016: 113). The band must be easy to remember, have a distinctive character, be expressive, euphonic, and last but not least have a connection between the products or services provided by the firm.

The brand is more than just a symbol, it is a complex of ideas and elements that give confidence to consumers, helping companies to attract customers, and it is also considered to be a "mix of tangible and intangible attributes, symbolized by a brand and which, if they have the right management, create and influence the value of a business" (Bogdan, 2010). The main economic function of brands is not - as in the case of patents - to stimulate the enterprise to invest in R & D activity, but to signal the concern for the quality of products / services offered, to increase efficiency by reducing costs by supporting Branding efforts of these products / services.

Actuality of accounting treatments and policies in relation to intangible assets (brand) is sometimes approached strictly theoretically. Therefore, it is necessary to approximate the policy elaborated by the economic reality faced by the presence of intangible assets within an economic entity. The issues of disclosure of accounting information specifically address the timing of financial reporting and the preparation of annual financial statements.

These issues are dealt with extensively in the literature that often makes reference to the relationship between diversity of information and annual reporting. Thus, with respect to intangible assets, we can refer to the following types of specific information (see Figure 1):

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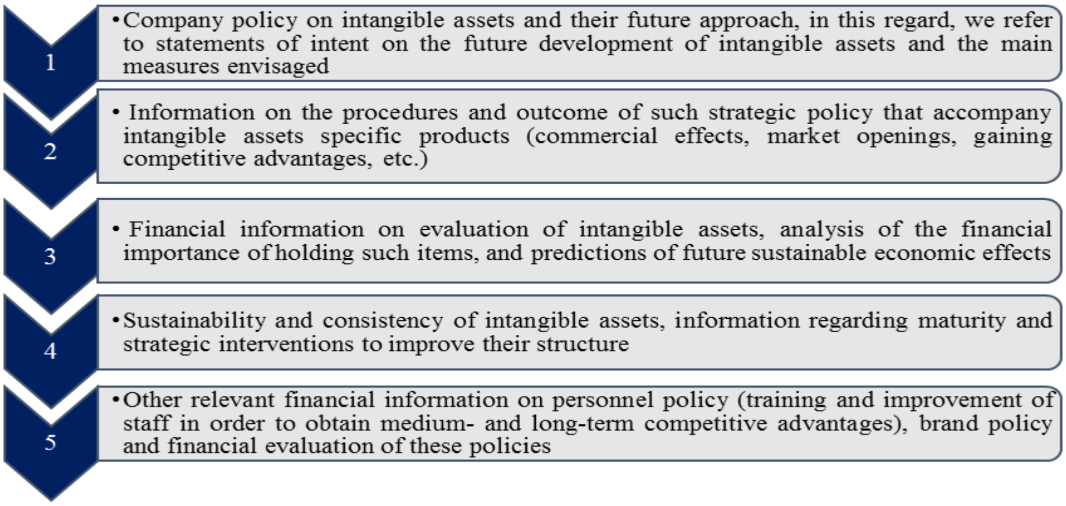
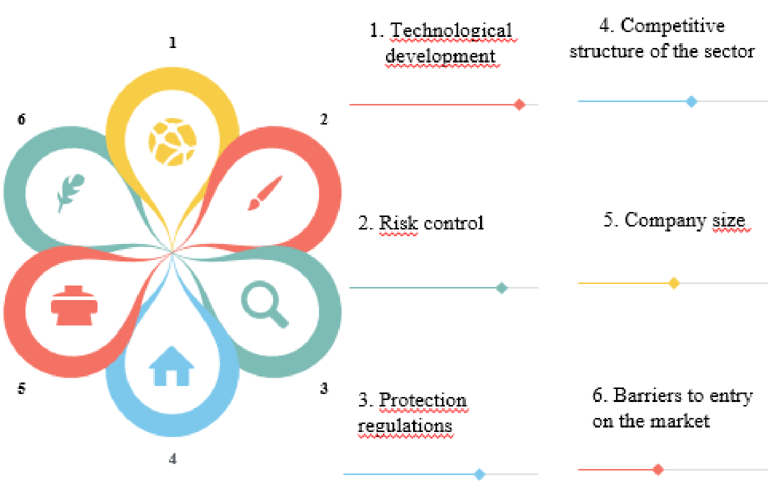
Figure 1- Types of specific information related to the brand



Source: Own elaboration

Keller & Lehmann (2006) believe that proper brand management will lead the company first to maximize profits that will eventually lead to the development of the entire society. According to Figure 2 the brand is affected by a number of factors, namely:

Figure 2- Factors influencing brand policy



Source: Adaptation after Fernandez, 2002

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Fioroni & Titterton (2009) consider that the personality of the CEO (the personality of the company CEO) is another major factor affecting brand and branding initiatives. Moreover, branding issues have been explained by the authors, referring to the Virgin Group example, where CEO Richard Branson has successfully established himself as a brand core.

A strong brand has to fulfil some essential attributes, namely:

Table 1- Essential attributes of a strong brand

Brand attributes		
1	**Originality**	consists in differentiating the products and services provided to competitors, but also in the fact that it must be unique and different
2	**Credibility**	a brand must be credible and offer customers exactly what they promised
3	**Durability**	this implicitly leads to the real success of the business
4	**Correct positioning**	is highlighted by the fact that it has to be placed in spaces accessible to the public for it to be always on their minds
5	**Relevance**	is highlighted by the fact that the brand has to meet or exceed the expectations of consumers
6	**Consistency**	it must not violate the promises made by the firm, thus giving trust to the public
7	**Attractiveness**	is the key element that captivates and inspires the client

Source: adaptation after Keller et al., 2002

Fulfilling these attributes will lead the company to a steady growth level but at the same time knowledge / remark among customers of the package of the products or services offered, distinguishing itself visibly from competing firms. Thus, while branding processes have a ”particular flexibility and can be applied to a wide range of objects, brand management has become one of the basic marketing tools that is not allowed in sales and promotion processes” (Tybout & Calkins, 2005: 4).

II. Brand recommendations and policies

As early as the 1980s, it was taken into account that, when trading an entity, the growth potential of the brands held or their actual value must be taken into account (Lindemann, 2004: 37); so there were situations when many firms were traded at a price

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higher than the stock market price, the most concluding examples being: acquisition of Rowntree by Nestle or Pilsbury by Grand Metropolitan.

Brand accounting accumulates over time issues relating to the accounting of tangible and intangible assets acquired through the acquisition of another company and, on the other, the desire of companies to reflect in their balance sheets the real value of the intangible assets that are generated within an economic entity.

II.1 The brand accounting treatment at national level

The brand is found in goodwill and it is an intangible asset, its value is not reliably measured in the balance sheet as it presents a number of impediments. These impediments are related to the fact that there are no tools or methods to specify exactly the value of the brand and also the regulatory framework imposes restrictions on its assessment (Mateş et al., 2016).

In particular, the restrictions appear on the value of brand entry in the company's patrimony. According to Order of the Minister of Public Finance 1802/2014, goodwill may be initially measured in two ways, at acquisition cost or production value, and when it is separately acquired, the cost of the asset is formed from the acquisition value and at this value there are costs directly attributable to the asset. However, there are other costs that are not included, such as promotional activities, advertising expenses, staff training, and other costs generated by directing (OMFP/2014: paragraph 170). Most of the time, the brand is recognized in accounting if it is credibly evaluated and will give the firm future economic benefits. Also, any intangible asset must be identifiable in order to be distinguished from goodwill.

For a number of entities, especially those in the consumer goods sector, trademarks/brands have a significant impact on turnover, becoming relevant to accounting policies. Thus, in the context of paragraph 133 of OMFP 1802/2014, which states that for a better understanding of the annual financial statements "whether an asset or liability is linked to more than one element in the balance sheet format, its relationship with other items should be disclosed in the explanatory notes" where it appears that it is advisable to use the marks / brands in the explanatory notes as a matter of value.

National accounting regulations state that in the case of intangible assets acquired in the context of the acquisition of a business (as is the trademark/brand), “the buyer may recognize as a group a complementary intangible asset group, provided that the individual assets have similar useful lifetimes" (OMFP 1802/2014: paragraph 161).

A problematic aspect of reporting these intangible elements is that the annual financial statements of most companies are low in transparency. Given that, unlike Western legislation, the Romanian legislation does not yet require a severe breakdown of expenditures according to their destination, it is quite difficult to carry out a brand assessment, relying solely on financial indicators.

II.2 International brand accounting treatment

At present, internationally, brands acquired through a business combination and / or separately purchased as assets, internally generated brands respectively, fall under the IAS 38, and only those acquired by acquisition can be registered. In hypothetical terms ”a company may have the same assets as Apple, but without the same brand awareness in their location” (Cosmulese et al., 2017). Looking from an objective perspective at their financial statements, investors would not know how to make any difference, but a sensitive investor should know that Apple's name is the difference between Apple and another company with similar performance. Apple acquires other entities and, as a result, recognizes these purchases as goodwill, but its internal brand is nowhere to be found by investors in its statements.

Over time, various organisms (OECD, 2013; FASB, 2001), specialists (Grosu, 2013; Dobre, 2013; Salameh & Bashir, 2013; Bužinskienė, 2017), practitioners have attempted to propose numerous ways to include the concept of intangible assets internally generated in the financial statements of the companies generating such assets.

A correct and complete evaluation and presentation of brand value information can play a decisive role in influencing decisions of a particular category of users, such assessments being useful (see Figure 3):

Figure 3- The utility of brand assessment by entities

Source: Adaptation after Cosmulese et al., 2017

Even though researchers (Tollington, 1998) consider that ”the problem of domestically generated brands results from the lack of a clear and precise definition of an asset”, other observers (Otonkue, 2010: 112) attribute this problem to ”a lack of mutual understanding and agreement on what is expected to be the

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balance sheet". They latter explain that the current balances "represent a mixture of historical costs, expenses that have not yet been allocated and market values".

Some authors have come to the conclusion that the most advantageous entities are purchasers, because they are thus able to recognize the value of the trademarks/brands they acquire through goodwill (Brooke, 2015; Grosu, 2013). A solution in this respect for the entities concerned, in line with current accounting standards, could be the creation of subsidiaries that can essentially "buy" and "sell" brands to and from the parent. But this method raises an ethical question: is the mark really sold or is it just transferred to a subsidiary to recognize the value? Such transactions would not somehow lead to the manipulation of the financial situation? Companies would set sales prices at certain levels to affect what is reflected in the financial statements, regardless of the actual value of the marks.

III. Conclusion

For many "famous" brands such as Apple, Google or Coca-Cola, brand value is a factor contributing to the company's success, so using current standards cannot accurately represent the company's value in the financial statements. Moreover, it is unlikely that these companies, whose brands have been internally generated over time, will be sold in the coming years, and therefore the value of the mark will never reflect reality. These brands will most likely continue to accumulate equity and values over the next few years and will not record any gain or loss in the financial statements. It is therefore difficult to track the financial progress of these brands over time and to evaluate the trends. In order to appropriately respond to brands, exceptions to accounting treatment standards should be made to adapt to the nature of the brands. The brand accounting/assessment methodology leaves too much freedom to accountants based on deviations in brand value estimates, and in order to accurately present brand values in line with accounting standards, the profession should create a solid and defined method and consider a change in the way the brands are registered.

There is currently no clear procedure to quantify the value of the brand, so in the absence of an explicit standard and an explicit interpretation, the management of the entity must resort to professional judgment to develop an accounting policy that provides the most useful information to its users. Certainly a fair assessment would stimulate customers in purchasing products, and in this way the company can extend their life cycle, so expanding across multiple markets would be easier and faster.

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