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Creation of value: From the intangibility to the tangibility

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Analysis of the intellectual capital and the creation of value is a very important part of management accounting. However, the financial accounting recognized as some of the limitations of financial statements, presented the book value of the assets and liabilities, quantifiable reliably in accordance with the rules of financial information and are not intended to present the fair value of the entity as a whole. Therefore, it is vital that companies, in addition to creating knowledge, can generate additional information supplementing that contained in the basic financial statements so that the same user a complete vision of the company and has the elements for proper decision-making. This theoretical work carried out within the framework of an investigation, analyzes the relationship of financial accounting and the creation of value through intellectual capital, to seek benefits present and future sources in organizations, complementary to information emanating of the basic financial statements.

Creation of value, Accounting and financial reporting standards

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Introduction

In the age of knowledge is vital for businesses to use all the elements that allow them to create and sustain competitive advantage through human talent management to add value to the company and successfully achieve its presence into the market.

For several years, companies have paid special attention to knowledge as a basic element of organizations and a key to business competitiveness.

Nowadays, one of the more important assets for companies are the intangible assets.

Nevertheless, nor this created value nor some intangible assets are part of the basic financial statements; since Financial Information Norms establish that assets must be identified and quantified in monetary terms.

The present research work has the objective of establishing the existen relationship between financial accounting and the creation of value in the companies through intellectual capital to make decision that sustains competitive advantages, improvement of their processes to avoid activities that does not add value to the company, achieve the growth and guarantee the staying in the markets.

Creation of value

Japanese companies have been successful due to the ability to create organizational knowledge.

That is, generate and make it known among members to materialize it in products, services and systems, say Nonaka and Takeuchi (1999).

This capacity of generating knowledge, counting with constant improving process, staff with the adequate competences and the skill to attract and hold the ideal staff is the base of knowledge management. An organization is composed of people, not of physics assets, and have a common objective: to achieve the objectives for which the organization was created according to Garrison and Noreen (1994).

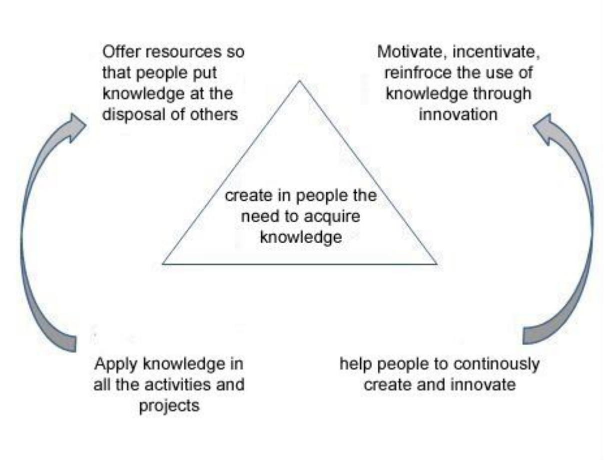

Figure 1

For Simon (1988) the organization's objective is not a static thing.

The organization, in order to survive, must have an objective that attracts their clients in such a manner that they make the needed contributions to sustain it. The objectives of the organization tend to adapt constantly to the users' changing values or secure new customers groups to replace those that are lost.

In most of failing companies, there are visible signals of existing problems, but these are ignored since the organization, as a whole cannot recognize the implications of such menaces, says Senge (1998). To achieve the organizational learning he proposes to identify seven barriers:

- I am my position: the laborer identifies himself with the task he does and does not get to see how those contribute to the achievement of the companies' goals.

- The external enemy: it consists on blame others with their faults, whether theses others are external or internal to the company and the laborer focuses too much in his position that he does not get to understand that his acts transcends it.

- The illusion of taking charge: consists on assume a proactive attitude but through an aggressive action against the enemy without stopping to perform a cost-benefit analysis.

- Focusing in the facts: the preoccupation about everyday situations prevail over, prevent from crating value and the real threatens that come from slow and gradual process are ignored, these threatens could be: arms race, ecological deterioration, erosion of public education system, lack of quality in the designs and products, etc.

- The parable of the boiled frog: it claims that when we put a frog in a pot and go increasing the temperature gradually, the frog will not try to escape because it will be increasingly dazed.

- The illusion of "learning through the experience": the organizations faces the dilemma of learning better through the experience. But sometimes the effects of the decisions made in the interior of the organization not always is reflected immediately and besides, they are decisions with no margin for trial and error since they have an impact in the whole organization and their effects have a long time duration.

- The myth of the manage team: the business experts teams fight to defend their territory and do not work well when the problems are complex.

There are three critic aspects that the organizations must identify in the corporative structure and that are fundamental for success: the conferring of authority for the decision maker, measurement systems of individual performance and business units and the methods of individual compensation same that were identified and classified as very poor in the Enron case. Brickley, Smith, Zimmerman y Willet (2003) make an analogy where they compare each one of the critical elements with the with the legs of a stool and they say that it is necessary that an equilibrium exists between them so the companies could stay in the market.

However, the staying in the market is not important but they can create value and generate knowledge. To achieve this, they must develop new capabilities and innovations through three activities, that Choo (1998) states as follows:

- Build and share tacit knowledge: through metaphors, analogies, models and anecdotes.

- Check and create the prototype of explicit knowledge: transformation of tacit knowledge through combination, verification and refining.

- Link and take advantage of external knowledge: The organizational culture influences the transfer of external knowledge and other departments since it is a social process.

Levit (1991) mentions that the modern organizations face two big challenges: having workers who have the needed knowledge and have an organization in which they can prosper and wish to stay.

Financial accounting

Romero (1997) defines Financial Accounting as a medium through which stakeholders can measure, evaluate, and monitor the progress, stagnation or decline in the financial position of the entities, from the lecture of economic and financial data of quantitative nature, gathered, transformed and resumed in reports called financial statements which allow to make decisions.

For Ramirez (2005) it is an information system designed to provide information to third parties for decision-making.

The Financial Reporting Regulations (2011) say that accounting is a technique used for the registration of operations that influence an entity economically and produce financial data systemically and structurally.

Financial information

The Financial Reporting Regulations (2011) establish that financial information is quantitative, expressed in monetary units, and descriptive, showing the financial position and performance of an entity, whose primary purpose is to be useful to the general user in making economic decisions. The financial information must satisfy the information needs of the general user:

- Shareholders or owners
- Sponsors
- Monitoring and surveillance corporate bodies, internal or external
- Managers
- Suppliers
- Creditors
- Employees
- Clients and beneficiaries.
- Governmental units.
- Taxpayers
- Regulators and
- Other users.

Qualitative characteristics of financial information

It should be useful to evaluate the entity: Since it is used to evaluate its economical-financial behavior, its ability to optimize resources, its viability as an ongoing business.

Make investment, resource allocation or extend credit decisions; evaluate the ability of the entity to generate resources or income for their operational activities; distinguish the origin and characteristics of the financial resources of the entity; form an opinion on how the entity has been handled; evaluate the management administration, growth capacity, generation and application of cash flow, its productivity, the changes in its resources and its obligations, its capacity to maintain the equity or stockholders' equity, the potential to continue operating normally and the ability to fulfill its social responsibility at a satisfactory level.

Likewise, the financial information must provide judging criteria regarding the solvency, liquidity, operational efficiency, financial risk and profitability of the entity. The Financial Reporting Standard FRS A-4 says that the financial information must have a set of features to be useful for decision-making.

The main characteristic is the utility and from it the primary features splits:

- Reliability: The content of the information must be consistent with the transactions occurred:

Veracity
Representativeness

Objectivity
Verifiability
Enough information

- Relevance: Ability to influence decision-making

- Chance of prediction and confirmation relative importance

- Understandability: Understandable for the user

- Comparability: Allow its comparative analysis with previous reports from the same institution or another.

The qualitative characteristics include certain restrictions in obtaining maximum levels so the concepts of opportunity, cost benefit and balance arise.

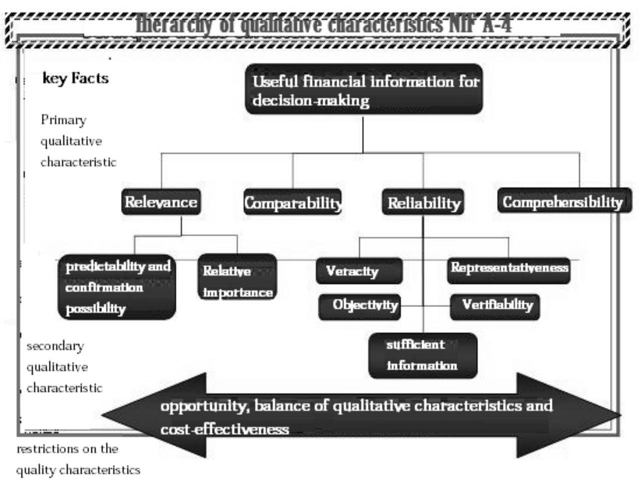

Figure 2

Financial statements limitations

- The operations of the entity are recognized with different alternatives, affecting their comparability;

- The financial statements, especially the balance sheet, contain the book value of the assets and liabilities of the entity, reliably measurable based on the FRS and do not pretend to present the fair value of the entity as a whole;

- The ongoing business are based on various aspects of estimates and judgments that are elaborated considering the different cuts of accounting periods, reason why they do not pretend to be exact.

Intangible assets

The FRS C-8 defines the intangible assets as those recognizable non-monetary assets, without physic substance, which will generate future economic benefits controlled by the entity.

Characteristics:

- Represents costs incurred, rights or privileges waiting for future economic benefits.

- Those future economic benefits are represented in incorporeal form.

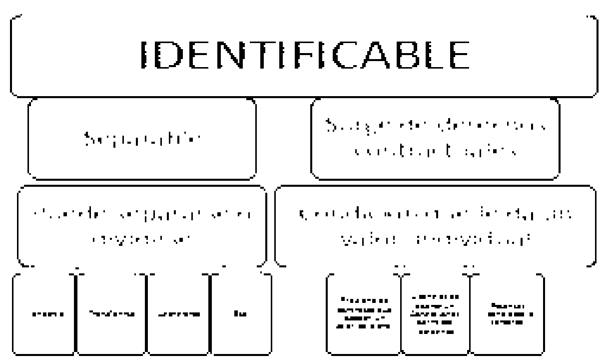

Figure 3

The valuation standards of intangible assets indicate that for the initial recognition the cash or equivalent paid is taken into account.

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If it comes from business acquisition its cost is the fair value (market value or its FRS A-6 estimation); and, if it is generated internally, its cost are the disbursements for its development. They also clarify that the differences between market value and book value does not represent the cost of intangible assets controlled by the entity.

Prieto (2009) points out that the companies are in a constant fight to survive and that there are many factors affecting the business and one of them is the investors demand to upgrade processes and technology with the strategic goals, therefore accountants must meet these growing demands with information that meets their needs.

Management accounting

Garrison and Noreen (1994) define management accounting like the one that offers information to managers who direct and control an organization; they point out eight differences between management and financial accounting:

- Focuses on providing information for internal use
- Emphasis on the future
- Less emphasis on precision and higher in non-monetary data
- Emphasis on the segments of the organization.
- It is assisted by other disciplines
- It is not regulated by accounting principles.
- It is not mandatory.

They also have some similarities: both are based on the accounting information system, they require management responsibility and they are focused in providing information for decision-making.

Conclusions

The knowledge management must be performed continuously, since changes make it obsolete in a short time, says Chiaverato et. al (2010) and must be in the search of value. Ramirez (2005) defines the value as an energy or force that motivates human action.

The value-based management focuses on delivering maximum value to customers, shareholders, members of the company and community in general.

In order to achieve this, all their activities are focused in generating shares with a value that generates cash flow so that the benefits outweigh the costs.

Management accounting is based on the information system of the financial accounting to issue information as a basis for decision-making.

One of its features is that it is at the service of the needs of the management, and the management requires value creation to grant competitive advantages so the company can stay in the market according to the basic premise of the conceptual framework of the financial reporting standards named ongoing business.

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FRS C-8 clarifies that the difference between market value and book value does not correspond to intangible assets that have generated value for the company therefore the discussion is focused on determining the method to be used the added value companies have and that is product of the intangible assets generated through intellectual capital management. Therefore, if the company has created value for shareholders, clients, employees or community it is essential that the value is recognized in reports that complement the content of financial statements so that the decisions taken are the most appropriate and guarantee the company positioning and continuance in the market, and continue to generate value in the future.

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