

Inseparable Assets as a Special Category of Assets Allocated During Considerable Transformations of a Company

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Abstract — The subject of the study is assets inseparable from the organization. The aim of the work is a scientific justification for the allocation of a separate category of assets—inseparable assets that are such for legal and economic reasons. The article discusses in detail the main reasons for the need to determine inseparable assets during the economic life of the company. As a result of the research, the following tasks were solved: the essence of such an economic category as assets inseparable from the company was revealed; the incentives for their determination were analyzed; the legal basis and economic reasons for the presence of assets signs of inseparability from an economic entity are considered; the basic principles for valuing inseparable assets were proposed. The article discusses examples of inseparable assets which transfer (and other types of disposal) to third parties is not provided (prohibited) by applicable law, as well as inseparable assets, the occurrence of which is due to economic reasons (assets can bring economic benefits to a particular organization, but are not of interest to third parties). The authors recommend considering inseparable assets in the course of valuation procedures, financial analysis and management accounting. In the course of the study, it was concluded that if there is a significant share of inseparable assets in the asset structure, the sale of property objectively will have an ineffective character: it is advisable to sell the company as a single property complex. The proposed use in scientific circulation of the economic category “inseparable assets” will allow for more efficient management functions, will assist in the development of appraisal procedures, will allow for more detailed disclosure of information in accounting (financial) statements, and will also simplify financial analysis during bankruptcy.

Keywords — *inseparable assets, imaginary assets, informal assets, valuation activities, bankruptcy, financial analysis, management accounting.*

I. INTRODUCTION

Effective management of any company is one of the most important tasks of managers, owners and society as a whole. An efficiently working company produces necessary products, creates and preserves jobs, makes taxes, provides dividends to owners, i.e. solves many problems of modern society [2]. For the successful work of companies, multifunctional, effective management methods are developed and implemented. To ensure proper management of the company, employees receive appropriate motivation [9]. But despite the targeted activities of the company for the effective work of business entities, some companies are liquidated, including through bankruptcy

proceedings. Sometimes, measures to overcome the economic crisis of a company may not be the whole bankruptcy of the company, but only the seizure of part of the company's assets, after which it can continue to operate [4, 6]. And as part of such actions, it is necessary to competently manage the company's assets, directing efforts to preserve (if possible) the production process. In this aspect, it is necessary to thoroughly and qualitatively analyze the company's assets. In the framework of this study, the authors presented the scientific justification for the need to distinguish a separate category of assets—assets inseparable from the company. The need to identify inseparable assets arises in the course of considerable transformations of a company.

II. LITERATURE REVIEW

The economic category of “assets” is used in various economic sciences: enterprise economics, accounting, taxation, financial analysis, valuation, etc. Assets are necessary for any type of activity. Many scientists [1, 7, 10, 12, 13] deal with issues of identification, classification, accounting, and valuation of assets; the concept of “assets” and their derivatives appear in various regulatory documents [14, 15, 18–20].

When analyzing financial stability, production efficiency, evaluating an existing business, many authors pay attention to the value of net assets (equity) [1, 7]. Moreover, information on assets, liabilities and equity is disclosed in detail in the accounting (financial) statements of the organization [3].

Note that modern scientific thought is constantly leading to the transformation of certain concepts; new methods and approaches are being developed in the economy.

An important source of information in analytical economic processes is accounting and accounting (financial) reporting. For various reasons, accounting registers are being manipulated and distorted; inaccurate data are entered into the financial statements [8, 11]. To ensure the provision of reliable financial information in the modern world, the Institute of Audit of Accounting Statements has been introduced and is used [5].

However, in some situations, the information presented in reliable, confirmed by the auditor, financial statements may not be enough for a full and comprehensive analysis.

III. METHODOLOGY

The authors draw attention to the fact that the assets themselves, or rather their qualifications, may change taking into account certain external and internal conditions.

It is necessary to analyze assets not only in their form and title documents, but also in their essence and content. In this study, we will focus on the assets that are inseparable from a business entity, the allocation of which into a separate independent category is advisable in the process of considerable transformations of the business entity (hereinafter, inseparable assets).

The company's assets, defined, valued and accounted for as assets according to accounting rules, may undergo significant changes in certain situations of the company's economic life [13]. Assets for a normally functioning company may cease to be such in the event of emergency or unforeseen situations.

The authors analyzed the norms of current legislation governing the definition, classification and valuation of company assets. Given the current needs of economic disciplines, the authors determined the need to distinguish an independent category of assets—inseparable assets.

IV. ANALYSIS

Consider the transformation of assets during the economic life of the company as an example of inseparable assets.

Imagine the concept of inseparable assets.

Assets inseparable from an economic entity are assets which transfer to third parties is not provided for (prohibited) by applicable law, or the acquisition of these assets by third parties is not economically feasible.

It is reasonable to consider inseparable assets from the legal and economic perspectives.

With regard to certain assets, current legislation does not provide for transferring rights to these assets; the assets are inextricably linked with the economic entity. Note that this restriction does not apply (and is not considered in this study) to universal legal succession arising from the accession, association or spin-off of legal entities; in such targeted actions, inseparable assets may change the copyright holder. However, such assets cannot be sold, transferred or disposed of in any other way.

The authors of the study also classify inseparable assets as assets that, from a legal point of view, can be alienated to third parties, but which in fact are of no value to other business entities except this organization.

Assets attributed by the authors to inseparable assets are identified, accounted for and valued in the accounting records in the ordinary course of business of the company, bring economic benefits within the framework of a single property complex. However, as indicated earlier, they cannot be (for legal or economic reasons) alienated from the analyzed subject.

And only in certain significant transformations of an economic entity there can be a need to distinguish inseparable assets.

Let us analyze examples of the need to distinguish inseparable assets during the economic life of a company.

1. Liquidation, including through the bankruptcy of an economic entity.

Liquidation of an economic entity. In particular, through the bankruptcy procedure, as a rule, it does not provide for the implementation of the entire functioning business as a property complex, but involves element-wise sale of assets, including fixed assets, intangible assets, materials, finished products, rights of claim (receivables) etc. [4, 6].

2. Sale of assets related to the type of activity carried out not as a single property complex in the form of the legal entity itself (share in a limited liability company, shares of a joint-stock company).

If the owners of the company do not come to a consensus when deciding on the implementation of the business, then the sale of assets with the payment of the actual cost of the share, the amount of the company's net assets to those owners who wish to receive the money owed to them, may become the solution. In this case, it is not possible to sell the entire business as a whole (all owners have not come to a single decision), but it is possible to sell the property objectively. In this case, the definition of inseparable assets will also be relevant.

3. Forced withdrawal from the organization of assets, without which it is impossible to continue the production process.

The seizure of assets, for example, by bailiffs within a court order, may lead to the inability for the organization to continue business activities. And in this situation, it will be advisable to determine the category of assets in the form of inseparable assets.

4. Amendment of the current legislation.

Changes in legislation can lead to the need to stop economic activity, the resumption of which is possible only if the legislation is observed, requiring significant additional financial investments. And in this case, it is advisable to determine and evaluate the amount of inseparable assets.

5. Non-normative decision of the state regulatory authority, for example, to revoke a license, etc.

The adoption by the state regulatory body of a decision on the obligation to suspend or terminate activities (due to violation of antitrust or relevant legislation), including revocation of a license, exclusion from a professional self-regulatory organization (SRO), will also lead to the need to determine inseparable improvements.

The definition of inseparable assets is important and relevant in the valuation area, financial analysis, identification of signs of bankruptcy, etc. The vast majority of assets of a working organization can be sold on the open market at fair (market) value. And this is the universally recognized asset

quality. However, the quality of the possibility of free disposal of an asset, as we indicated above, is not inherent in all assets. Inseparable assets can be taken into account when evaluating a business as a whole as a single property complex. But when evaluating all the assets of an organization with the proposed objective sale of assets, including during bankruptcy proceedings, the determination of inseparable assets will allow more accurately, efficiently and reliably obtaining the company's valuation results, taking into account the valuation objectives, i.e. The results of the company's valuation will depend on the objectives of the valuation, as well as the proposed legal mechanism for alienating the business: as a property complex (sale of a company's share or shares) or sale of assets objectively.

As already noted, inseparable assets can be identified in the following cases:

1. Transfer (and other types of disposal) to third parties is not provided (prohibited) by applicable law.

2. The acquisition of assets by third parties is not economically feasible.

Consider the legal and economic basis for the allocation of assets in a group of inseparable assets.

Transfer (and other types of disposal) to third parties is not provided (prohibited) by applicable law.

Note that in some cases, the legislator withdraws assets, that are such during the functioning of the company, from assets that have all the qualifying attributes of the assets, and that cease to exist with the business entity itself and cannot be transferred in any way to third parties.

We exemplify the following assets, which during the bankruptcy of a company are not subject to accounting as assets that can be sold:

- positive business reputation (goodwill); goodwill is inextricably linked with the company itself; goodwill is built up taking into account the quality of products, the image of the company. If the company is liquidated, then the asset cannot be transferred or sold to another entity;
- organizational expenses. The "organizational expenses" asset is associated with the creation of this particular company, in the event of its liquidation, this asset, in its economic sense, is subject to write-off for expenses (losses);
- capital costs for leased fixed assets. The economic reason for excluding this asset from assets that can be sold for money is the inability of the lessee to recover or present to the lessor the cost of creating inseparable improvements to the leased property, because such a condition is a common practice in lease relationships;
- incomplete capital expenditures on leased fixed assets. This asset is not a source of potential revenue for the same reasons as capital expenditures in rented fixed assets themselves [20].

The above example does not exhaust the list of inseparable assets, the alienation of which is not provided for by applicable law.

Inseparable assets also include:

- deferred tax assets (DTA). Deferred tax assets are inextricably linked with the organization itself, only an entity with deferred tax assets can use them to reduce the amount of accrued income tax, transfer or sale of deferred tax assets is not provided for by law [19];
- value-added tax (VAT) not acquired and not reclaimed from the budget for value acquired, excise taxes. The right to a refund of VAT and excise taxes provided by applicable law is inextricably linked with the organization itself; if the organization, for one reason or another, has not used the right to reimburse indirect taxes, then this right cannot be transferred to another taxpayer [15];
- license (as the right to engage in a certain type of activity), the presence of which is due to compliance with legislatively established licensing requirements. The organization's license is issued by the licensing state body, taking into account the analysis of the availability of all licensing requirements of the applicant, for example: fixed assets for activities, personnel of relevant qualifications (sufficient number), liability insurance, etc. According to current legislation, the license (as the right to exercise certain type of activity) cannot be sold or transferred to third parties, as another company may not have all the necessary conditions for the activity [16];
- Membership in a professional self-regulatory organization (SRO). By analogy with licensing requirements, membership in an SRO is subject to the organization observing all the conditions necessary for membership in a self-regulatory organization. Current legislation does not provide for the sale of membership in SROs [17];
- management quality control system, an organization's quality management system that exists and is reflected in accounting as an asset. An example is the widespread ISO 9001 organization quality management system (certificate of compliance with the requirements of the international standard ISO 9001). Such an asset is inextricably linked with the company itself and cannot be alienated to third parties;
- expenses on labor protection of workplaces. These expenses are incurred for a long period (for example, 3–5 years). Accordingly, these expenses can be considered as assets written off to expenses during the validity period of the labor protection certificate of the respective workplaces;
- certification of hazardous production facilities. This asset (certificate for a specific hazardous production facility), as a rule, is issued for several years.

Note that such assets as business reputation, a quality control system of the production process, certification of a hazardous production facility, certification of workplaces, permits (licenses, membership in a self-regulatory organization) are inextricably linked with the organization itself and the current legislation does not provide for the possibility of alienating these assets by a third party, since these assets depend on the relevant conditions of the organization.

In addition to inseparable assets, the alienation of which is not provided for (prohibited) by the current legislation, the authors also classify those assets that can be sold from a legal point of view, but are not of interest to third parties. Consider the economic reasons for the appearance of inseparable assets in the special conditions of the company.

An organization may have part of the economic benefits necessary for the company itself, but the acquisition of such assets by third parties is not economically feasible. Consider the following examples:

- company website. An organization's existing website, as a rule, has distinctive features that are specific to that particular organization. According to the authors, the company's website is unlikely to be economically interesting to third parties;
- costs of the completion, improvement and development of accounting, tax and management accounting software is relevant for this particular organization. Such an asset may be alienated in accordance with existing legislation, however, it is not relevant for third parties;
- research and development (R&D) works that did not give positive results. This asset is reflected in accounting for a uniform write-off of the expenses incurred on the cost of production evenly, over several years. Such an asset (research results) can be sold to third parties, however, based on the understanding of the lack of a positive result from scientific research, finding a potential buyer for such an asset is unlikely. If the liquidation process begins, the forecast period of the organization's existence is significantly reduced, which leads to a reasonable obligation to write off such an asset for loss.

The specified list of inseparable assets on the basis of economic feasibility is not exhaustive, but only shows the principle of determining such assets.

Inseparable assets as an independent economic category have been determined for various purposes for a long time, but they were not allocated to a separate category of assets.

The valuation of inseparable assets is based on the basic principles of accounting and valuation activities (depending on the objectives). At the same time, it should be noted that inseparable assets in the course of liquidation or termination of economic activity are presumably subject to write off for losses or their fair (market) value tends to zero, because in isolation from the organization and the main assets that

support economic activity, inseparable assets on their own cease to bring economic benefits.

The authors note that inseparable assets can also be identified in the list of informal assets (economic benefits that can be beneficial for the organization, but should not be reflected in accounting and accounting (financial) reporting according to accounting rules) [13]. As an example of informal assets, which should be considered as inseparable assets, we can cite the right to preferential repurchase of property from government, redemption of property at the residual value of leased property from the lessor, the right to receive tax benefits, etc.

Such assets, being informal assets, are at the same time inseparable assets.

V. CONCLUSION

The authors point out that the need to determine inseparable assets arises only in some cases. In the ordinary course of business, assets, including inseparable ones, can bring economic benefits. Inseparable assets can bring economic benefits within the framework of a single property complex, and independently represent no significant value.

The authors propose introducing into scientific circulation the concept of "inseparable assets" that will be used in the relevant economic situations of the company: liquidation, including through the bankruptcy procedure, forced withdrawal of a significant part of fixed assets, etc.

If we consider the bankruptcy procedure, then certain inseparable assets can be considered as property that cannot be included in the bankruptcy estate.

The authors recommend considering inseparable assets in the course of valuation procedures, financial analysis and management accounting. Note that if there is a significant share of inseparable assets in the structure of assets, the sale of property objectively will have an ineffective character: it is advisable to sell the company as a single property complex.

Summing up, the authors talk about the need to distinguish a separate category of assets: inseparable assets that may arise due to the absence of a legally stipulated possibility (prohibition) for the alienation of property or the lack of economic feasibility for the acquisition of assets by third parties.

The reasons for the need to determine inseparable assets may be extraordinary circumstances in the economic life of the company, in which it is impossible to alienate the existing business as a single property complex, but there is a duty to alienate property that can be sold on the open market without the organization itself (bankruptcy of the company, forced seizure of valuable and liquid property, ban on activities, etc.).

The application in scientific circulation of the proposed concept of "inseparable assets" will improve the procedures for valuation activities, financial analysis, building business models and other analytical procedures.

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