



A study on accounting of intangible asset of selected companies in India

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Abstract

This study aims to investigate accounting treatment of intangible asset of selected companies in India. The selected sample companies in this study are 10 automobile companies in India. The study considers 10 years financial reports. The independent attributes are number of employees, gender, professional qualification, Compensation, Training and development, work related knowledge, Corporate culture, patents, copyrights, trademarks at the end of each sample for the years. The data relating to study have been collected from annual reports and other supplement financial documents supported which are used to determine the intangible assets score.

Keywords: Intangible assets, automobile companies, India

Introduction

Accounting of Intangible assets is a complex and important subject in today's information and knowledge based economy. For companies, these assets are becoming basic drivers for achieving competitive success. They constitute a fundamental part of balance sheet of a company. Accounting of Intangible assets is also vital for their effective management as there is a famous saying "What gets measured gets managed" (Ayuso, 2003a). With a view to report these assets in the financial statement, various regulatory bodies have issued accounting standards on Intangible assets.

Accordingly this chapter is based on an in-depth study of major accounting standards dealing with Intangible assets. It has been divided into two sections. Section-I introduces different accounting standards presently used for reporting Intangible assets information across the globe. Section-II examines, in detail, the similarities and differences among these standards.

Over the past decade for the purpose of accounting of Intangible assets in the financial statement, several accounting standards have been issued by professional accounting bodies in different countries. As mentioned above by Cnaan *et al* (2000), the literature has been discussing the topic of accounting and reporting of Intangible assets for a long time. Provision of these standards used to vary across the globe which would limit the comparability of financial statements in an international context (Bruno & Kirsh, 1991)

The globalization of the world's capital markets sparked a movement for a global standard on Intangible assets. The best example is of this was the introduction of International Accounting Standard-38 on Intangible assets. Following that other countries have also issued separate Accounting standards on Intangible assets like AS-26 in India, SFAS-142 in US, FRS-10 in UK, and ASBE-6 in China. These standards address issues like how and when Intangible assets that are acquired or internally generated should be accounted in the financial statements. They also lay down provisions on how these Intangible assets should be accounted after they have been initially recognized in financial statements. Brief history/description of this

standards under IFRS, UK, US, Indian and Chinese GAAP is given below:

International financial reporting standard (IFRS): Under IFRS, International Accounting Standard-38 (IAS-38) on Intangible assets was issued by the International Accounting Standards Committee in September, 1998. The objective of the standard was to prescribe the accounting treatment for Intangible assets, that are not dealt with specifically in another standard. The standard requires an entity to recognize an Intangible asset if, and only if, specified criteria are met. The standard also specifies disclosures about these assets. Accounting treatment for amortization, impairment, retirements and disposal have been explained. Further IASC has also issued International Accounting Standard-36 impairment of assets which discusses the impairment provision for goodwill and Intangible assets with indefinite life

Literature Review

Abbas Talebbey dokhti, Iman Ghasemizade, Kobra Dehghani and Motahare Hosseinpour (2015) have conducted a study on an investigation into the relationship between the market value of intangible assets in Tehran stock exchange with the object to investigate the relationship between intangible assets in companies and their market value. All companies listed on the stock market and securities in the period of 2001 to 2010 in the sample were comprised of 114 companies and found out that there is a positive and meaningful relationship between intangible assets and market value. Abbas Talebbey dokhti, Iman Ghasemizade, Kobra Dehghani and Motahare Hosseinpour (2015) have conducted a study on an investigation into the relationship between the market value of intangible assets in Tehran stock exchange with the object to investigate the relationship between intangible assets in companies and their market value. All companies listed on the stock market and securities in the period of 2001 to 2010 in the sample were comprised of 114 companies and found out that there is a positive and meaningful relationship between intangible assets and market value.

Adriana-Sofia (2012) have conducted a study on intangible assets: are these resources sufficiently visible and properly controlled? With the object to reveal how Romanian companies

disclose information about their such elements. Many Romanian companies listed at Bucharest stock exchange and find out that will help companies to identify, assess and control their intangible assets, they presented model can be considered a guideline which can be easily adapted by companies accordingly to their informational needs.

Alade sule Omoye (2013) has conducted study on determination of intangible asset disclosure in annual report evidence from Nigerian quoted companies with object to used 65 randomly selected quoted company over a period of 5 years and find out that stakeholders with intangible assets disclosure concern should not pay strong attention to firm`s specific characteristics.

Amit Dixit has conducted study on institutional branding; An institutes most valuable intangible asset with object to explore the various facts of branding important to nurture the image of any management institution and find out that many institutional are playing increasing attention to value branding has to offer.

Anil Nagtilk (2013) has conducted a study on disclosure of intangible assets (intellectual capital) in annual report of IT-ITES companies in Pune region with object to greater investigation and understanding of IC disclosure as usefulness of financial information in explaining firm`s profitability.

Research methodology

Research design include a plan of various action to be carried out in for research work. The process of research comprises the selection of the research problem, the presentation of problem, the formulation of hypotheses, interpretation, presentation, data collection, conceptual clarity and similar action. The research design is so developed by the research to answer the hypothesis with the utmost objective, validity and accuracy. Without environment, information, is collected by using descriptive research design and it is concerned with the data description and characteristics of population.

To analyse the data rating to intangible as a descriptive research method is followed. For the selection of sample

unit a purposive sampling technique is used. The selected sample companies in this study are 10 automobile company in India.

The study considered 10 years financial report from 2004-5 to 2014-15. The qualifications for the IADIs has been disclosed there in their financer report for 10 consecutive financial year. The independent attribute are number of employee, gender, profession qualification, compensation, training and development work. Created knowledge, entrepreneur spirit, human resource, accounting Brand valuation distribution channel, market share, market, Business collaboration, customer satisfaction / information, social activities, research project, networking and information system, organisation structure, corporate culture, patents, copyrights trademark at the end of each sample for the year 2005-2015. The data rating to study having collected from annual report and other supplement financial documents supported which are used to determine the intangible assets score

Data Analysis and Result

All data was analyse by using Ms excel and manual work. The IADI, number of employee, gender, professional qualification, compensation, training and development, work related knowledge entrepreneurs spirit, human resource accounting, brand and their description, brand valuation, distribution channels, market share, market, business collaboration, customer satisfaction / information, social activities, research project, networking and information system organisation structure, corporate culture, copyright trademarks where collected and categorised by year the result have been calculated and presented in tabular and chart form. Two types of analysis have been carried to conclude the study the disclosure or not disclosure is observed from annual report of 2005 to 2015.

Information category	Score assigned
Information in quantitative form	2
Information in qualitative form	1
No information	0

Disclosure score

No.	Attributes	Score	No.	Attributes	Score
1	Number	2	12	Market share, markets	2
2	gender	0	13	Business collaboration	0
3	Professional qualification	1	14	Customer satisfaction / information	1
4	Compensation	2	15	Social activities	1
5	Training and development	1	16	Research project	2
6	Work related knowledge	1	17	Networking and information system	1
7	Entrepreneurial spirit	0	18	Organization structure	1
8	Human resource accounting	1	19	Corporate Culture	1
9	Brands and their description	2	20	patents	2
10	Brand valuation	0	21	copyrights	2
11	Distribution channels	2	22	Trademark	2

Finding and Discussions

This chapter is about findings and conclusion made from data analysis interpretation part. The triumph of any organisation depends on the intangible assets it divided in sub part human capital, external capital and internal capital. Organisation can increase its production capacity by using intangible asset so intangible asset are important assets and used to increase capacity, productivity, earning and also generate capital income

The study examine analysis of the IADI and the selection selected attribute of 10 companies from 2005 to 2006 to

2014 to 2015. the following are the major findings of the study

1. From analysis of Ashok Leyland ITD company and as per the Interpretation IADI, They have given less importance to internal capital rather than human capital and external capital.

2. From analysis of Bajaj Auto Company and as per the Interpretation IADI, They have given less importance to internal capital rather than external capital, and company has more focus on external capital.
3. From analysis of the Tata motors company and as per the Interpretation IADI, they have given less importance to external capital
4. From analysis of the Hero motocorp limited and as per the interpretation IADI has more important external capital rather than internal capital and human capital.
5. From analysis of the Maharashtra scooter limited in as per the interpretation IADI has less important internal capital rather than external capital and human capital.
6. From analysis of the TVS company and as per the interpretation IADI has equal importance to human capital, external capital and internal capital.
7. From analysis of the Atul auto company and as per the interpretation IADI has more important external capital and internal capital and human capital.
8. From analysis of the Bharat Gas Ltd and as per interpretation IADI has less important internal capital rather than external capital and human capital.
9. From analysis of mother and son sumi limited and as per the interpretation IADI has equal important to human capital external capital and internal capital
10. From analysis of sudharam Clayton limited and as per the interpretation IADI has more focus on external capital rather than internal and human capital.

Based on the above discussion and analysis of intangible asset disclosure practices of selected Indian companies made on the basis of attribute wise and company wise disclosure following conclusion can be drawn.

- The level of intangible as a disclosure is low in automobile industry, though it has improved the level after 2010
- Out of the three categories of intangible as a disclosure index, external capital is the most reported category
- Analysis is of quantitative and qualitative nature of disclosure shows that intended as a reporting is mainly qualitative
- Reporting of intangible asset is very unorganised and unsystematic. This is due to lack of an established and generally accepted framework for reporting these assets

Limitation of study

From the different view points of the study some of the critical points have been mentioned under:

There are number of companies across the world which is reporting accounting of intangible asset in their annual report but field of the study is only limited to the Indian companies

Accounting of intangible asset is the voluntary accounting same as human resources accounting, social responsibility accounting, environment accounting, inflation accounting etc. but the study focused only on accounting of intangible assets and for analysis purpose other accounting systems have been ignored.

The secondary data have been used in the study there are limitations of the secondary data would also affect the study.

If any of the data relating to the study is not available then zero is considered. It means non-existence of the attribute.

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