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INTRODUCTION

REVIEW OF LITERATURE

NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESIS (ES)

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

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SCOPE FOR FURTHER RESEARCH

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APPENDIX/ANNEXURE

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CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–23

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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INTANGIBLE ASSETS DISCLOSURE: A STUDY OF INDIAN COMPANIES

SHWETA NARANG
DEPARTMENT OF COMMERCE
HIMACHAL PRADESH UNIVERSITY
SHIMLA

ABSTRACT

The present study reviews and evaluates the arguments in favor of reforming current accounting and disclosure practices related to intangible assets. The value attached to intangible assets has increased manifold in the current era of knowledge economy. But as the current accounting system still failed to give accurate and full information on most knowledge based unseen assets in the financial statements, the value relevance of financial statements is thus decreasing in the eyes of investors and many other users. So, accounting and disclosure of these unseen resources i.e. intangibles have become the big problem being faced by the companies. To bring light to the subject, the objective of present study is to review the disclosure practices followed by indian companies for their intangible resources and factors affecting such disclosure and finally the format in which indian companies disclose their intangible assets.

KEYWORDS
intangible assets, knowledge economy.

INTRODUCTION
In the words of Albert Einstein (1879-1955), an American theoretical physicist; "Everything that can be counted does not necessarily count, everything that counts cannot necessarily be counted." The corporate business world has changed notably over the past two decades. As the time passed away intangibles became the main performance drivers of a firm (Pankaj M Madhani, 2009), which has brought a transition in the economy as well – i.e. from a traditional to a knowledge based economy. But even with this transformation in the business world, current accounting systems still appear to ignore most intangible and knowledge based assets in the financial statements.

And as now a days, the value of a company is no more driven only by its tangible resources and as discussed the value driven intangible assets are either not accounted or not properly accounted in financial statements, so today's investor do also not rely only upon the financial statements of a company as the primary source of information as it does not provide information about company's intangible assets, which makes him believe that it could mislead him. And because intangible assets are more complex and difficult to measure (Srivastava et al., 1998), challenges exist not only for the investors but also for the stock analysts who advise the investors. Moreover, the development of an accounting standard for intangible assets has taken a long time rather it has been still controversial (Lloyd Austin, 2007). And even after more than half a century have passed after the birth of modern financial reporting it is being felt that the work of national and international financial accounting boards is insufficient to correct the systematic weaknesses that persists in current era of knowledge based economy. So, accounting and disclosure of these unseen resources i.e. intangibles have become the big problem being faced by the companies. Though reporting of intangible assets is made mandatory by reporting standards, but it is in principle motivated by the same considerations as any other type of voluntary disclosure – that is, the desire to increase market valuation, enhance access to credit and attract investors. Disclosure is principally targeted at investors, although it may be also targeted at partners in cases of mergers or acquisitions or even to more specific categories of users such as potential employees, lawyers and bankruptcy judges in the cast of bankruptcy proceedings. In many cases, intangible assets disclosure is intended for multiple audiences and is thus prepared in such a way as to satisfy these specific categories of users (OECD, 2012). To bring a light on above mentioned is the objective to conduct the present study.

LITERATURE REVIEW
Michael G. Harvey and Robert F. Lusch (1999), emphasized that to balance the intellectual capital book organizations must recognize unfunded intangible liabilities. **Won W. Choi, Sung S. Kwon and Gerald J. Lobo (2000),** examined the relationship between the reported value of intangible assets, the associated amortization expense and firm's equity market values. **John RM Hand's (2001),** examined the fact that spending on intangibles specially on Brands, Research and Development and on other structural intangibles will exhibit increasing profitability returns to scale. **Enzo, Vittorio, Alberto, Raffaella (2002),** argued that Intangible assets are increasingly considered the ultimate roots of company's success. **Baruch Lev (2003),** discussed the accounting problems related to disclosure of internally generated intangible assets. He then discussed the consequences of the misreporting or absence of reporting of intangible assets. Further, he suggested the remedies that can be done to improve the situation. **Lloyd Austin (2007),** believe that due to unusual measurement and recognition features attached to intangible assets, it is difficult to develop a comprehensive accounting standards. **Yu- Jing Chiu and Yuh-Wen Chen (2007),** proposed a measurement system to value patents/ intellectual property that includes both quantitative and qualitative perspectives from multiple dimensions. **Rudolf, Marc & Gijs (2007),** discussed various methods of valuation of intangible assets i.e. the cost approach, the market approach, the residual approach and the discounted cash flow approach. **Dr. Chander Subhash and Mehra Vishakha (2008),** examine the voluntary disclosure practices of intangible assets of Indian drugs and pharmaceutical industry, by using annual reports of selected companies. **Ragini Chandra (2009),** in her comparative study on corporate disclosure practices on intangibles concluded that Indian companies lag behind as compared to the Japanese and US companies through multi regression analysis. **Pankaj M Madhani (2009),** explains through this study key components of intangible assets i.e. human capital, structural capital and relational capital, also highlights the cost associated with disclosure of intangibles. **Vinny Munjal and Gauri Sikka (2010),** focussed its attention to the knowledge capital and its valuation. **Dr. Pandya Hemal and Ms. Jain Ankita (2015),** examined the relationship between the intangible assets and firm's value for the companies in India.

RESEARCH METHODOLOGY
This study falls into the scope of a analysis of different sets of practices as defined under six categories of research by Walton, Halter and Raffournier (1998). The main objective of this study is to examine the disclosure practices of intangible assets by the companies in India in their annual reports. Further, the study focuses its attention to examine the motives behind the disclosure of intangible assets and the format of their disclosure.

INFORMATION GATHERING
Information was gathered from the annual reports of the sample companies and from the various past studies. The annual reports of these companies were analyzed using content analysis so as to examine the level of disclosure of intangible asset information. Intangible assets disclosure index based on the intangible assets framework as given by Sveiby (1997) and as used and tested by Guthrie and Petty (2000) and many other subsequent studies was modified and used for this study.

PROCEDURE
As the present study contributes to the understanding of intangible asset disclosure practices by companies in India. In line with this objective, the first section explores the factors leading to the disclosure of intangible assets by the companies in India in their annual reports, second section explains the format of such

disclosures and the corporate governance variables that might affect company reporting practices. And the last section deals with the disclosure of intangible assets by the companies in India in their annual reports.

INTANGIBLE ASSET DISCLOSURE

FACTORS AFFECTING DISCLOSURE

The motivation for executives to disclose information on intangibles and report them to the board has already been discussed in the above section. However, the incentives for reporting this information externally (i.e. to the general public) may differ. Perhaps the primary motivation for disclosing such information is to bridge the information gap created by the inability of the current accounting frameworks to communicate the value of intangibles. While the overall rationale disclosing additional information on intangibles to the market is clear, however company-specific motives may differ.

There is no conclusive evidence that company size dictates the extent of intangible assets disclosure. Some studies have found that younger companies provide more IA disclosure because they are more likely to seek capital as opposed to mature listed firms that have access to funds. Recent evidence confirms that IA reporting by younger, technology intensive companies is beneficial. For instance, a project carried out by experts from the academia, government and companies in Spain in 2010 showed that a reliable and comparable report on intangibles is highly beneficial for these companies (Sanchez, 2011). OECD's work also found that financial markets especially reward SMEs for increased disclosure (OECD, 2006).

Further, it appears that better disclosure occurs in high technology sectors where IA are significant and where the gap between accounting and market values tends to be large. For instance, a recent study focusing on the Australian market found that although disclosures about intangibles was generally low, companies operating in high technology or knowledge-intensive industries had more extensive disclosure (Whiting, Woodcock, 2011). A study of IA disclosure of pre IPO firms on Copenhagen Stock Exchange also found that industry classification and ownership were variables found to most influence the extent of IA disclosure (Bukh et al, 2005). Recent surveys show that capital market-related incentives for IA disclosure are extremely important (ICAS, 2010) and indeed some evidence confirms that IA disclosure has a positive impact on market capitalization of companies (Abdolmohammadi, 2005; Lajili and Zéghal, 2005).

While most of this section has dealt with the benefits of external intangible assets disclosure, the benefits for management of not disclosing certain intangible assets also need to be addressed. First, the risk of litigation in connection with information disclosed in a narrative format – even without trying to quantify IA as per guidelines given under AS – 26. In the United States, the Management Discussion and Analysis section is governed by specific regulations and is subject to SEC oversight, leading to a more legalistic approach to narrative reporting by companies (PWC, 2007). In addition, companies might find it difficult to find auditors willing to issue an opinion on their intangibles. Second, situations where executives or some of the main shareholders do not wish to disclose information on IA such as innovations to be patented or other assets with significant future financial benefit as it could raise questions about market manipulation.

FORMAT OF DISCLOSURE

In most jurisdictions, intangible assets were, and continue to be, recognized on the financial statements if their market value can be established through a transaction with a third party, as is the case of patents or trademarks which when acquired as part of a merger, can be considered as part of goodwill and periodically re-valued. The notion of "fair value" continues to dominate the thinking on asset recognition in IAS and IFRS (OECD, 2012). Many items, such as internally generated goodwill, brands, customer lists and some product development costs cannot be recognized. The recognition of intangibles as part of goodwill has been subject criticism on the basis that "goodwill is like soup, we do not necessarily know what is inside" (Zambon, 2011).

Attempts to value intangibles have been advanced by the work of the International Valuation Standards Council (IVSC). The IVSC, after four years of consultation with valuation professionals, auditors and users of reporting has released updated guidance on the valuation of intangible assets in 2010. In its report IVSC identifies principal techniques used for the valuation of intangible assets such as brands, intellectual property and customer relationships, and provides guidance on how these can be applied.

As a result of existing limitations to recognize intangible assets on company's balance sheets, disclosure has gravitated towards the narrative format. And narrative disclosure can take several forms: companies can publish an Intellectual Capital Statement or include a description of their intangible assets as a part of their broader narrative reporting. This does not mean that narrative reporting is purely qualitative. It can include valuations and external validation of reported figures but it does not form the part of financial statements. Although models to disclose IA qualitatively have abounded, models designed to provide a financial valuation of such capital are fewer and services for audit of valuations of intangible assets can be described as only emerging. A number of intangible assets disclosure methodologies favour the use of KPIs (Key performance indicators), which can be tailored based on the industry. This approach has been advocated by WICI's framework. It is also consistent with the findings of the OECD's work (OECD, 2006).

CORPORATE GOVERNANCE AND INTANGIBLE ASSETS DISCLOSURE

The internal and external factors affecting the disclosure of intangible assets have already been discussed so it is imperative to discuss corporate governance variables also that affect the intangible assets disclosure for example, the composition of the board or the ownership structure of the company, could in principle have an impact on the disclosure of information on intangibles. Nonetheless, there are few governance variables that are thought to facilitate intangible assets disclosure.

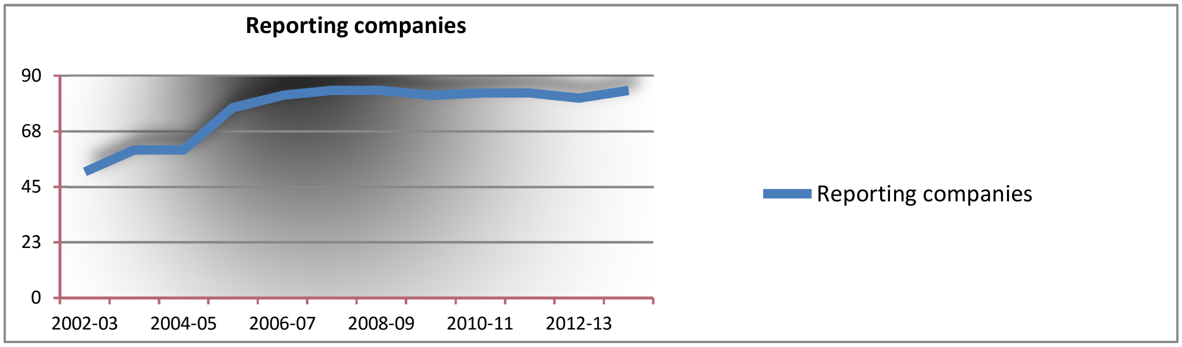
Board independence appears to be a factor positively correlated with enhanced intangible assets disclosure. In one study of UK listed firms, researchers concluded that intangible assets disclosure is positively correlated with a host of corporate governance factors including presence of independent directors and directors' breadth of experience (Li et al, 2011). In a sample of biotechnology companies in Australia, White et al (2007) found that the level of voluntary intangible assets disclosure was strongly related to board independence and company leverage. On the other hand companies with concentrated ownership structure are generally found to be less likely to provide extensive intangibles disclosure. This could be explained by the fact that companies with such ownership structures are less responsive to investors' information needs since dominant shareholders have regular access to information (Li at Al, 2008). A review of practices by listed firms in Singapore found that firms with concentrated ownership and those with high level of executive director ownership were less likely to voluntarily disclose information; on the other hand, state-owned companies were more likely to do so (Firer, Williams, 2001). Concentrated ownership by professional investors appears to have a similar impact.

DISCLOSURE ANALYSIS OF INDIAN COMPANIES

To analyze the disclosure practices of intangible assets by Indian companies in their annual reports BT (Business Today) top 500 companies were taken as population and out of those 500, BT top 100 companies were analyzed thoroughly by studying their annual reports for thirteen years i.e. from 2001-02 to 2013-14. Out of these BT top 100 companies only seven companies were excluded from the scope of the present study as annual reports were not available for those seven companies.

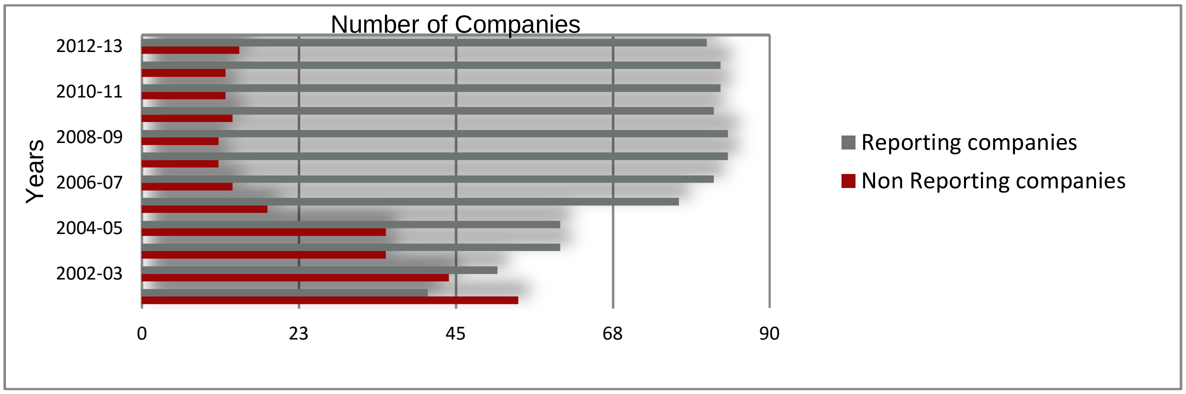
The study of the annual reports of BT 100 companies for aforesaid period shows that the number of companies valuing intangibles in their financial statements have increased more than 50% since 2001-2002. The following graph (i.e. graph -1) shows the increase in number of companies reporting their intangibles.

GRAPH - 1



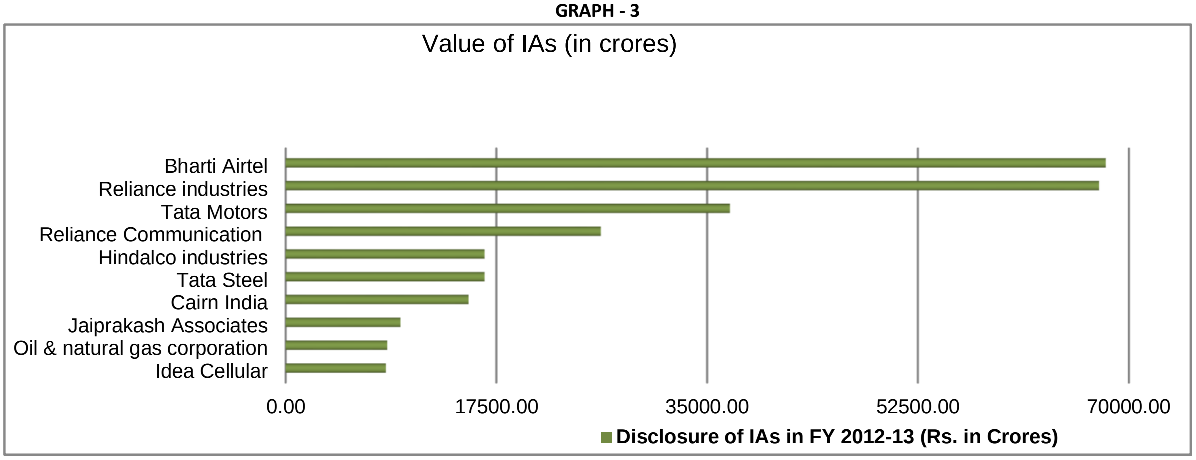
The above graph shows the increasing trend among the indian companies to value intangible assets in their financial statements. Further year wise analysis has been done to observe the number of companies reporting and the number of companies not reporting their intangibles in the financial statements since 2001-02 to 2013-14. It has been observed that in 2001-02 only 41 out of 93 were reporting intangibles and in 2013-14 the number of companies reporting intangibles has increased to 84 out of 93 (as 7 companies out of BT top 100 companies were excluded from data).

GRAPH – 2



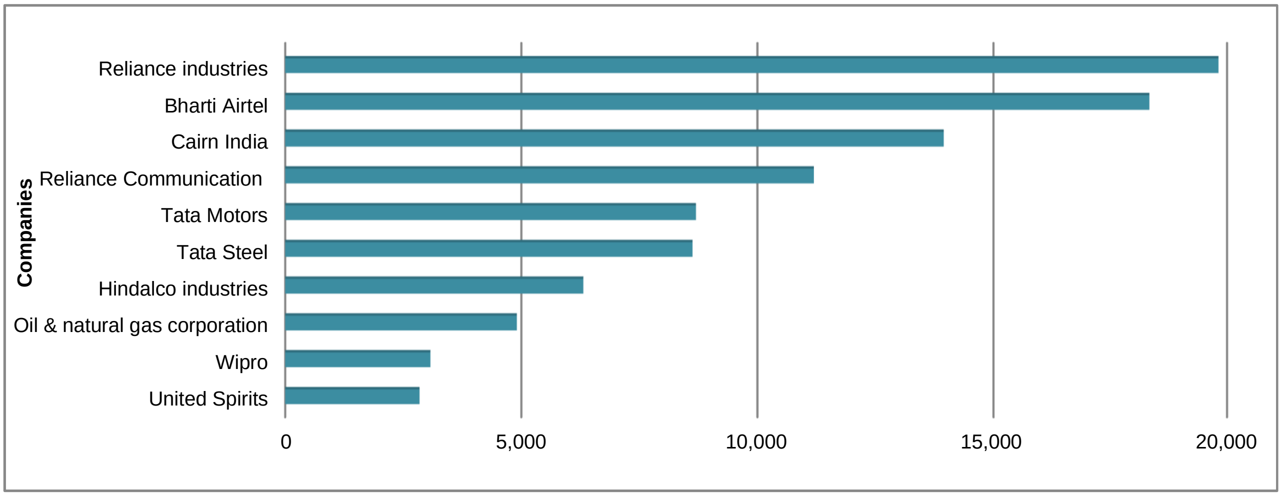
Further, the sample companies have been ordered on basis of intangible disclosure in their financial statements for FY 2013-14 from highest to lowest where, rank 1 being given to the company with the highest disclosure. Bharati Airtel have disclosed highest value of intangibles i.e. Rs. 68,080 crores among all the sample companies followed by Reliance Industries who have disclosed intangibles worth Rs. 67,533 crores and Divi's Laboratories being the last with no disclosure of their intangibles in their financial statements for the year 2013-14. Following graph shows the top 10 ranked companies among the sample companies which disclosed highest IAs in their financial statements for FY 2013-14.

GRAPH - 3



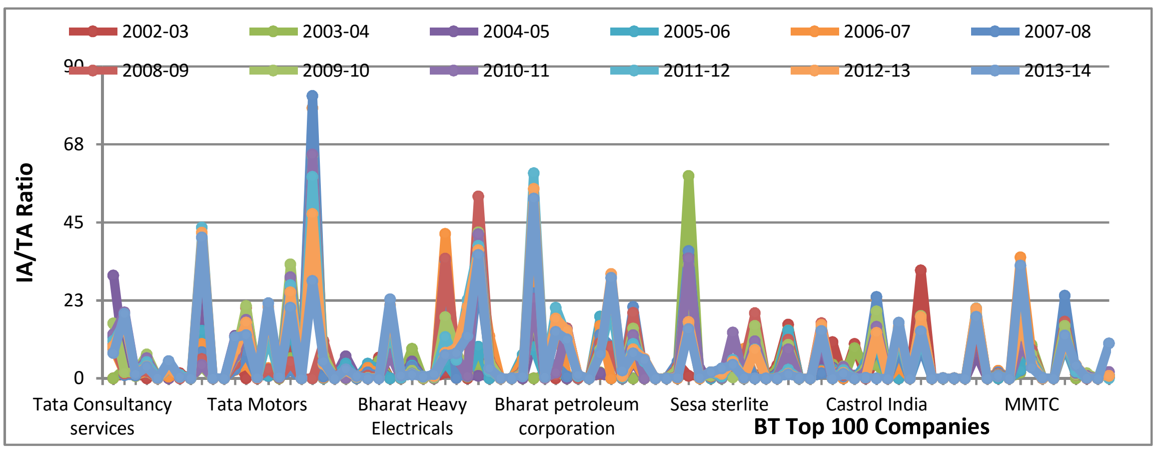
The sample companies were again ordered on the basis of average disclosure of intangibles in their financial statements from FY 2001-02 to 2013-14 from highest to lowest where, rank 1 being given to the company with the highest disclosure. Reliance Industries have disclosed highest value of intangibles with a average disclosure of Rs. 19,815 crores every year followed by Bharati Airtel who have disclosed average of Rs. 18,313 crores of intangibles every year for a period of 13 years and Divi's Laboratories being the last with no disclosure of their intangibles in their financial statements since 2001-02. Following graph shows the top 10 ranked companies among the sample companies which disclosed highest IAs every year in their financial statements on average basis since 2001-02 for the sample period of 13 years.

GRAPH – 4



As the economy has transformed from traditional to knowledge based, the intangibles have become the new value drivers for the businesses. This means that the value of physical assets should have reduced in comparison to these unseen assets in the annual reports. For analyzing the above, the annual reports for sample companies for the period of thirteen years i.e. from 2001-02 to 2013-14 have been studied in detail and the proportion of their intangible assets to total assets have been taken via IA/TA Ratio (intangible assets to total assets ratio) for all the sample of 93 companies (as seven been excluded out of BT top 100 companies). And it has been observed that IA/TA Ratio for the sample companies is highest in the year 2012-13. The following graph shows the year wise trend of IA/TA ratio for sample companies for the period of thirteen years.

GRAPH - 5: YEAR WISE TREND OF IA TO TA RATIO FOR INDIAN COMPANIES



CONCLUSION

It has been observed from the present study that indian companies have shown a positive trend in disclosure of information on intangible assets in their annual reports since 2001-02 and the number of companies disclosing such information have almost doubled since 2001-02. But still the intangible assets constitute small part of the value of total assets of indian companies which reveals that the indian companies still lag behind in valuing their intangible assets in their financial statements. The study further reveals that most of the indian companies disclose information on their intangibles as a part of additional information in their annual reports.

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